**TO:** Australian Stock Exchange Limited
Company Announcements Office
10th Floor, 20 Bond Street
SYDNEY NSW 2000

**FROM:** David Berry, Company Secretary

**DATE:** 31 March 2006

**PAGES:** 70

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**FUNTASTIC LIMITED 2005 ANNUAL REPORT**

Please see attached the Funtastic 2005 Annual Report that will be distributed to shareholders on Friday 7 April 2006.

David Berry
Company Secretary

www.funtastic.com.au

# Funtastic!

The 2005 Funtastic Limited Annual Report

## Shining Stars
**Cloe and the Bratz Girlz**

## Revealing!
**The Board tells all**

## What kids like about Spider-Man

## Leapfrog's Secrets
**The easy way to learn**

## PIRATES!
**Don't be afraid. Be excited!**

## What's HOT!
**Shoes, Clothes, Games, Books, and MORE!**

## Best Ninja Moves!
**with the Teenage Mutant Ninja Turtles**

## FREE
**Huge Financial Section**

funtastic LIMITED

9328 3687

ACN 063 886 199

# With LeapFrog Baby, their next **learning breakthrough** is always within reach.

## Little Touch LeapPad Learning System

Reading together has never been so enriching – or so much fun! Every touch of the page brings favourite stories to life, paving the way to reading love, laughter and learning. Three 'Grow with Me' levels take baby on a journey that begins with music and sound effects and leads all the way to preschool readiness.

6–36 mths

**Learn Something New Every Day!™**

www.leapfrog.com

funtastic™

**1800 660 655**

Funtastic!

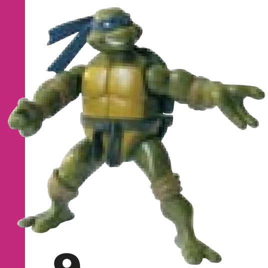
# In this Edition





FREE!







Learn to learn with Leap!



# The Board tells all!

## Financial Highlights

The reported results your Company achieved in the year ended 31 December 2005 were excellent.

The key financial results include: -

Net sales of $345.7 million, up 11.1%

Earnings before interest & tax (EBIT) of $35.1 million, up 36.0%

Net profit after tax (NPAT) of $21.6 million, up 35.8% (AIFRS equivalent)

Earnings Per Share (EPS) of 17.1 cents, up 30.5%

Net operating cash flow of $27.8 million, up 131.7%

Managing Director Tony Oates and Chairman Geoff Tomlinson

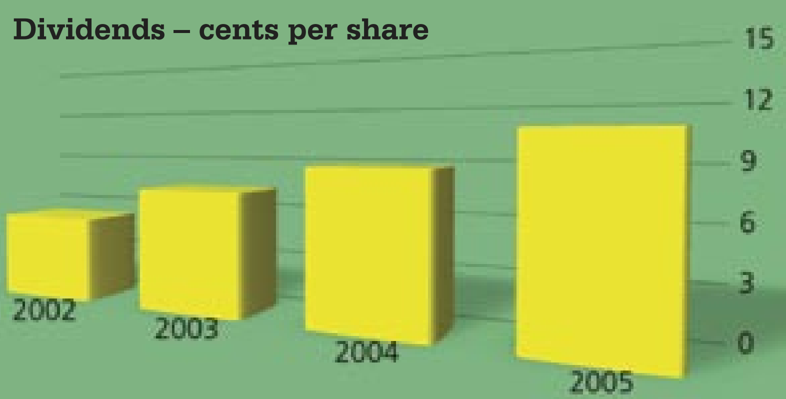
The Directors have declared a final fully franked dividend of 6.5 cents per share. The total dividend for the 2005 year amounts to 10.5 cents per share, which is a 23.5% increase over the 8.5 cents paid in 2004. The record date for the final dividend was 21 March 2006 and the payment date is 6 April 2006.

## Operations

Funtastic's core strategic focus on licensed and branded merchandise continued in 2005. The key differentiator of the business is our ability to seek out and develop long term, sustainable strategies for the best licenses and brands across a broad range of products. As retailers endeavor to improve margins by sourcing more generic product on a direct basis, our competitive advantage is providing the added value and credibility that brands such as Bratz™, Disney™, LeapFrog™ and Holden™ bring to our product ranges.

We continue to drive this brand strategy throughout the business and its success can best be exemplified in our market share growth in toys from 19.5%* in 2004 to an unprecedented 24% in 2005, including the recent Dorcy Irwin acquisition. In addition, we increased our Publishing market share from 7.6% in 2004 to 10.3% in 2005. Both of these categories only sell licensed and branded merchandise.

** GFK audited data*




## Wow - 23% increase!!!

Directors have declared a final fully franked dividend of 6.5 cents per share (making the total for the 2005 year 10.5 cents, *an increase of 23.5%* over 2004). This final dividend was paid on 6 April 2006, with a record date of 21 March 2006.

During 2005 we divested ourselves of our non licensed electrical product ranges. When looking at our strategic goals for the next three years we felt that the generic format of our Electrical business was at odds with our long term strategic position.

We successfully acquired Planet Fun in New Zealand and Dorcy Irwin Pacific in Australia in 2005. Both of the businesses perfectly complement our operations and have contributed excellent results during the course of 2005. Both businesses are firmly grounded in the distribution and marketing of key licenses and brands that continue to cement our market leading position.

## 2005 Results Analysis

Your Company's results for 2005 were reported, for the first time, utilizing the Australian International Financial Reporting Standards (AIFRS) guidelines.

The table below shows a proforma view of our financial performance both including and then excluding the acquisitions of Planet Fun and Dorcy Irwin Pacific. It is also important to note that the 2004 reported Net Profit After Tax (NPAT) has been adjusted for the impact of the new AIFRS reporting standards.

Our financial position has had a major improvement in 2005 with net cash flow from operations improving from $12.0 million in 2004 to $27.8 million in 2005. This represents a 131.7% increase over 2004 and is the result of improved terms of trade with key vendors, along with a focus on inventory management and best practice debtor collections.

## Outlook for 2006

The Australian retail environment softened during the months of September and October 2005 primarily due to the impact of increased petrol prices and their effect on discretionary consumer spending.

As we cycle through this period in 2006, it is our belief that consumer spending at retail should be more robust. Your Company is well positioned to capitalize on any material improvements with a strong financial position and a portfolio of product that will enable us to enhance our market leading position.

Our Toy businesses are well placed with exciting ranges including LeapFrog educational toys, Bratz fashion dolls and innovative technology based toys such as Tamagotchi™, Robo-Reptile™ and the Radica™ range, as well as key licenses such as Thomas and Friends™, Pirates of the Caribbean™ and Spider-Man™.

We continue to secure more licenses in apparel and are very excited by the addition of Holden outerwear and accessories, Socceroos childrenswear and Spider-Man outerwear amongst others. Our range of licensed children's

| $million | 31 Dec 2005 reported | 31 Dec 2005 pro-forma* | 31 Dec 2004 reported+ | Change 05-04 reported | Change 05-04 proforma |
|---|---|---|---|---|---|
| Net Sales | 304.4 | | 267.6 | | |
| Fun International | 41.3 | | 43.7 | | |
| | **345.7** | **297.9** | **311.3** | 11.1% | -4.3% |
| EBITA | 35.3 | 27.0 | 25.8 | 37.6% | 4.7% |
| EBITA% | 10.3% | 9.1% | 8.3% | | |
| **NPAT** | **21.6** | **17.5** | **15.9** | **35.8%** | **10.0%** |
| NPAT% | 6.2% | 5.9% | 5.1% | | |

*NOTES: * 2005 Pro-forma removes the profit and sales contirbution of the Planet Fun (effective 1/1/05) and Dorcy Irwin Pacific (effective 1/08/05) acquisitions.*
*+ The 2004 reported NPAT has been adjusted for IFRS impacts*

# Best Ninja Moves!

## with the Teenage Mutant Ninja Turtles

**The 3 TOP NINJA moves that Raphael says gives him the edge every time. Check them out!**

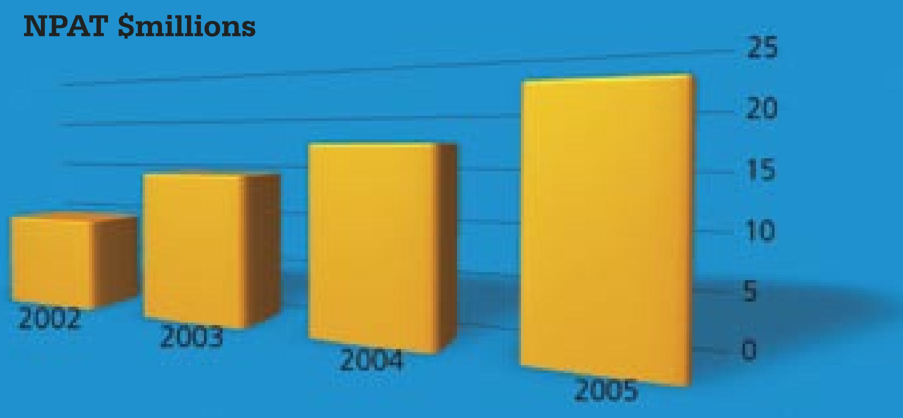
**1. Get outa here**
Arms outstretched, legs set. wide. Your opponent will think twice before attacking.

**2. Leg thrust**
Left leg forward, shoulders back. Your opponent will not know what hit them.

**3. Double lunge**
Both arms directly outstretched in front. This will give your opponent something to lean on - NOT!

TEENAGE MUTANT NINJA TURTLES

# Message to Shareholders




## Look at those Million$$$

Over the past four years your Company has grown NPAT from $9.0m to $21.6m, an increase of 140%

footwear continues it's position as market leader and will again be successful throughout 2006.

Our QuickSmart Stroller is now the second best selling stroller in Australia and 2006 will see the launch of more exciting product ranges in our QuickSmart nursery business.

Sporting Goods, Homewares and Accessories remain focused on driving key brands such as Razor and licensed properties such as the Disney and Marvel portfolios.

The year 2005 saw our Confectionery and Publishing businesses achieve strong growth and in 2006 we will focus on operational efficiencies to drive even greater shareholder returns in these areas.

Working capital management and improvements in operating cash flow will again be a key area of focus throughout 2006.

We have now rolled out and integrated our TM1 information system to all existing areas of the company and all teams are deriving great benefits from the increased insights that this system offers. Effective, 1 March 2006, we have introduced TM1 to Dorcy Irwin and in July 2006 we will implement it in Planet Fun, New Zealand.

Continuing our strong acquisition record in 2005 we successfully acquired two strategically aligned companies. Acquisitions have provided solid growth for your company over the past five years and will continue to be important into 2006 and beyond.

We have started to make meaningful in-roads into the International market with our range of QuickSmart nursery products. Unlocking value on the global stage for the unique range of products we constantly develop in Australia is an important avenue by which we can continue to drive growth.

## Summary

Over the past four years your Company has grown Net Profit After Tax from $9.0 million to $21.6 million, an increase of 140%. The dividend paid per share has increased from 5 cents per share to 10.5 cents per share. These increases have been driven by a combination of organic growth and successful acquisitions. The Board is proud of all the Executives and staff who have helped produce these results, as without them none of this would be possible. We believe we have the best people to drive our licenses and brands for sustainable long term success and the Board of Directors would like to thank them for their passion and commitment.

On the same note, the Directors would like to thank all our shareholders for their enormous support and would like to assure you of our commitment to achieving continued growth and success.

## The numbers keep getting better

Earnings per share (EPS) *increased by 30.5%* to 17.1 cents in 2005

# What's HOT!

## The definitive guide to all the latest products from Funtastic!

### Funtastic Toys

Funtastic continues to be a dominant player in the toy market, with its array of leading brands and its strength in the boys, girls and educational preschool markets.

2006 will see heightened brand building activity around key brands, notably LeapFrog, Baby Born™, Spider-man , Marvel and Fly Wheels™ as well as key movie properties such as X-Men™, Ghost Rider™ and Pirates of the Caribbean .

Other exciting key properties include WWE™, Teenage Mutant Ninja Turtles™, Disney Princesses, TV Games and The Wiggles™.

2006 will also see Funtastic leap into the Board Games market with a range of educational games under the LeapFrog license. LeapFrog is currently the number one brand in the Educational/Electronic Preschool market and in 2006 have licensed the brand for the first time to this exciting new category!

**Leap Frog - Leapster**

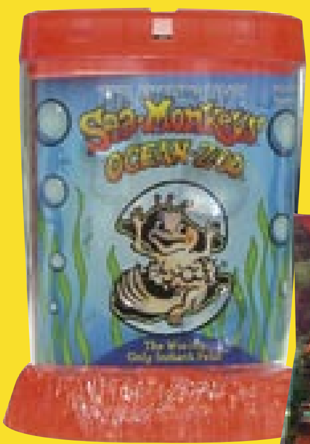
**Wiggles Guitar**

### Toy & Hobby

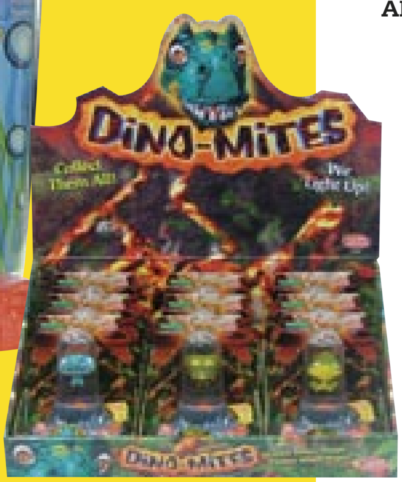
Toy & Hobby's name says it all; selling everything from innovative spy and activity products, to specialty toys and model kits.

Toy and Hobby have the distribution rights for the exciting Wild Planet range of products including Spy Gear. Other brands include the classic Sea Monkeys range of instant pets and accessories add to the targeted range of children's products distributed by Toy & Hobby.

This exciting portfolio also includes the broad Revell™ range of scale model kits including cars, boats and planes.



**Sea Monkeys**




**Dino-Mites Collectables**

### JNH Toys

JNH sell an extensive range of innovative and fun toys suitable for infants through to teens, including the following market leading brands; Bratz, Thomas & Friends, Pokemon™, Cabbage Patch Kids™, Power Rangers, Air Hogs, Care Bears and Tamagotchi.

JNH Toys has dominated the toy market in 2005 with the phenomenal success of market leading brands such as Tamagotchi and the Bratz range of funky fashion dolls and accessories. JNH has strength across all of the major toy market categories including pre-school toys and boys action figures.

The success of it has been built through the development of long term strategic partnerships, with internationally recognised companies including Tomy, Bandai, MGA Entertainment, Playalong Toys and Spin-Master Toys.

**Amazing Allyson doll**

**Tamagotchi**

## Planet Fun

In December 2004, Funtastic expanded its operations into New Zealand via the strategic acquisition of Planet Fun, the leading distributor of toys & nursery products in that market.

Planet Fun has been operating since 2001 and rapidly grew to its leadership position via strong partnerships with companies including Bandai, Tomy, Radica and Safety 1st, and by accessing the best licenses and brands such as Bratz, LeapFrog, Thomas & Friends, Cranium, Girl Tech, Fly Wheels, Tamagotchi and Bob the Builder.

Planet Fun currently has 4 main product areas; Toys, Nursery, Confectionery and Homewares and distributes these products though all major retailers in New Zealand.


**Cranium Game**

**Bouncing Baby Play Place**

## Sporting & Outdoor

Funtastic's Sporting and Outdoor business is growing rapidly and adds an exciting dimension to the Funtastic stable of brands.

Sporting currently distributes world famous brands such as Razor, Bratz, Zocker and WhammO, in addition to developing local brands such as 2DX, MotoFX and Scuttlebug™.

Razor is currently the second best performing brand in the Outdoor Toys market (GFK data as at end October 2005) and includes a wide range of scooters (kick and electric), scream machines, bikes, ride-ons, helmets and protective equipment.

With strengths in new product development and licensing, Sporting is also focusing on new outdoor categories such as gliders, hackey sacks, Frisbees, balls, ride-ons, rollerblades, skateboards and much more.

**Razor Scooter**

**Bratz Baby Bike**

# What do kids like about Spider-Man?

## We looked into it and came up with a few answers!

**1. Because he's got lots of muscles and a cool outfit.** *And also because he's cool!*

**2. Because he can use his web to swing through town.** *And also because he's cool!*

**3. Because he can use his web to help defeat crazy villains.** *And also because he's cool!*

**4. Because he can shoot web from his hands.** *And also because he's cool!*

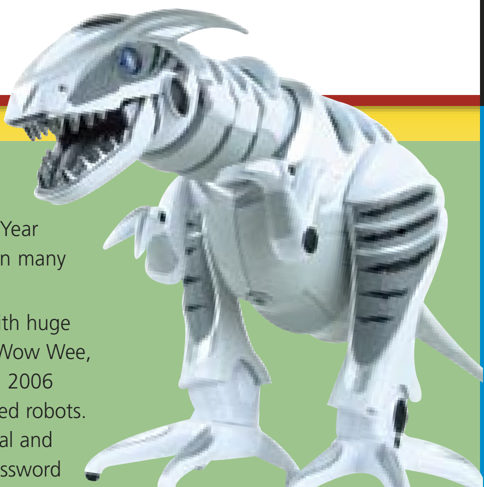
## Dorcy Irwin

Dorcy Irwin was the 2005 winner of the Toy of the Year and Boys Toy of the Year (also in 2004) and has won many industry awards over the past few years.

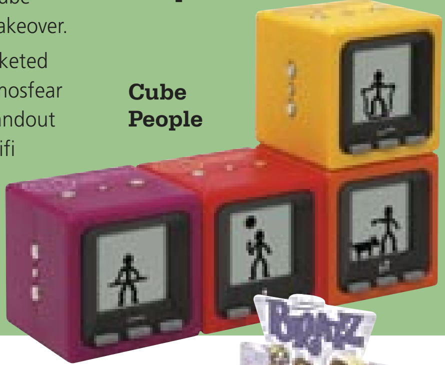
Dorcy Irwin is a dominant player in electronic toys with huge success including Robosapien and Roboraptor from Wow Wee, both big sellers in 2005. This success will continue in 2006 with the introduction of new and even more advanced robots. Other key high tech products include the phenomenal and addictive 20Q, the best selling interactive Girltech Password Journal, and the awesome Play TV Snowboarder all from Radica. New introductions will include the intriguing Cube World phenomenon, Play TV Skateboarder and Digi Makeover.

A wide range of successful board games are also marketed including the Cranium range, CSI, Da Vinci Code, Atmosfear DVD board game and The Simpsons games. Other standout toy ranges include Shelcore, Corgi, and licences like Fifi & the Flowertots, Strawberry Shortcake, Batman™, Thunderbirds, James Bond, and WPT.

Torches and batteries are also distributed with the Dorcy brand being market leader in LED flashlights and having the broadest range of outdoor lighting.



**RoboRaptor**



**Cube People**

## Confectionery

Our Confectionery range was born out of novelty confectionery with candy toys such as PEZ™ and Cap Candy (Spin Pops). The rapid success of this business soon saw a widening of the brand portfolio to include premium branded confectionery such as Anthon Berg™, Brown and Haley™ and Cavendish & Harvey™.

It is also proud to represent key international brands such as Chupa Chups™ (novelty) and Beacon.

**Bratz Eggs**

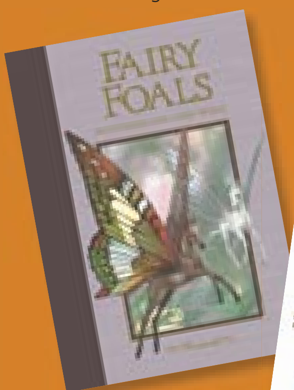
## Publishing & Interactive

Funtastic started Publishing in early 2002. Despite only trading for a short amount of time, we quickly became the fastest growing children's publisher in the country. According to Neilson Book Scan we are consistently ranked in the top five children's publishers in Australia based on sales volume.

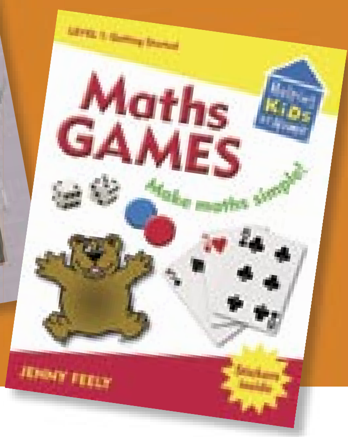
2006 sees the addition of Interactive as a category for the business – focusing primarily on gaming technology, electronic learning aides, DVDs etc.

The international side of our business began in 2004 and quickly grew to account for over a quarter of our total turnover with healthy business in export sales, co-editions, and packaging on every continent – except Antarctica. Our overseas trading partners continue to expand, and we anticipate strong growth in our international business in the coming years.

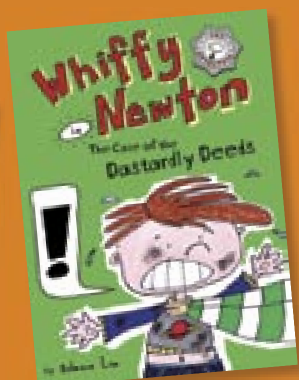
Our Publishing and Interactive Entertainment business is located in Rowville, Victoria.




**Fairy Foals**




**Maths Games**



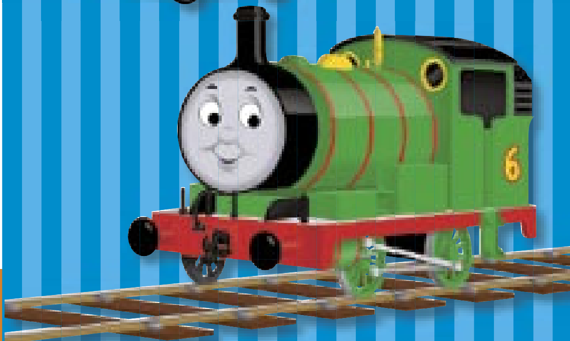

**Whiffy Newton**

# EXCLUSIVE!

## Meet Thomas the Tank Engine's Friends

**Thomas introduces us to 3 of his best friends, Harold, Percy and Sir Topham Hatt!**

**Harold the Helicopter** brings a welcome spot of dash to the quiet landscape of Sodor whenever he appears and even if the noise is occasionally wearing, he is good hearted and the engines are always pleased to see him.

**Percy** is the junior member of the principal team of engines. He is a happy little chap who's quite content puffing around the yard with no particular desire for adventure in the great world outside. He is always keen to oblige, a fact of which the other engines are apt to take advantage.

**Sir Topham Hatt** is the director of the Railway and is responsible for making sure the engines are always right on time and really useful. He has a firm but kind manner in dealing with the engines and staff and has risen through the ranks from a railway engineer to his current position.

THOMAS & FRIENDS

## Nursery

Funtastic's Nursery business has grown rapidly since 1998. Safety 1st™ now offers a complete range of feeding, bath time, health & hygiene, gates walkers, bouncers and much more. Funtastic has also developed a very popular range of Winnie the Pooh™ care and feeding products under the Safety 1st brand.

Of great success also, is the locally developed Quicksmart range. Based on the innovation and success of the Quicksmart stroller, Funtastic is extending the revolutionary range of Quicksmart products in 2006. The Quicksmart range provides parents with innovative, original and convenient tools needed to make everyday parenting a breeze.

In addition to these thriving brands, Funtastic also distributes premium Nursery brands including Tomy (baby carriers, baby monitors, mobiles and accessories), Medela (Breastpumps and accessories) and Baby Plus as well as many of our retailers' own brands in Australia & New Zealand.

Most recently, Funtastic acquired a new distribution agreement with Pacific Cycles to launch a succinct range of InStep and Schwinn 3 wheel Joggers and Strollers. This, along with fantastic new product development across a number of brands, will continue to grow the Funtastic Nursery business in the coming years.

**Walkabout Baby Monitor**

**Quicksmart Stroller**

## Accessories

The Accessories business comprises a wide range of goods including children' licensed bags, backpacks and rolling luggage. Hot licenses include Barbie, Spider-Man, Disney Princesses and Teenage Mutant Ninja Turtles just to name a few.

More recently Accessories has expanded in the area of fashion accessories including licensed children's hats, scarves and gloves, including Teenage Mutant Ninja Turtles and Bratz.

The Health & Beauty range which is part of Accessories, is growing rapidly, particularly with the development of a fashionable range of Cosmetic Bags and Barbie Health and Beauty products.

We follow the latest fashion trends from all around the world to develop product which is fashionable, fun and affordable

**Bratz Bowling Bag**

**Pooh roller luggage**

## Homewares

Homewares began with the introduction of the ever popular children's flip-out sofa and has grown rapidly to include a broad range of licensed children's homewares. This ranges from manchester and lighting to wooden furniture and camping chairs. Popular licenses within the children's homewares area include Bratz, Bob the Builder, Batman, Teenage Mutant Ninja Turtles, Spider-Man, Saddle Club™, Barbie and Winnie the Pooh.

**Spider-Man Chair**

## Funtastic Apparel

Funtastic Apparel has become one of the substantial growth areas in the company. Its strong base of sleepwear, rainwear and swimwear, incorporating well known licenses such as Barbie™, Spider-Man, Bratz, Thomas and Friends and Winnie the Pooh, has allowed it to extend into the fashion oriented categories of outerwear, underwear, socks & hosiery. This strength and rapid growth has been driven partly by substantial investment in resources, and partly by capitalising on our knowledge of leading trends in the child and youth market.

**Spider-Man Boardshorts**

## Footwear

Since its inception, Footwear has grown from small beginnings to market leader. This exceptional growth has taken place with a focus on children's licensed footwear.

It holds licensing rights for such powerful brands as Winnie the Pooh, Barbie, Bob the Builder™, Thomas and Friends, Bratz and many others. With an enormously experienced team in place, it is perfectly poised for the next exciting phase of the operation.

Our vision is to move into developing a generic range of innovative footwear for teens and adults.

**Winne the Pooh slippers**

## Australian Horizons

Australian Horizons is an integral part of Funtastic Limited having been a major player in the Australian apparel industry for the past 20 years. The head office is based in Melbourne, Australia and there are international offices and manufacturing facilities in China (Shanghai) and Fiji. Our principal business is in the design, development, manufacturing and distribution of both woven and knitted garments for a variety of customers. Product segments include: outerwear, underwear, socks & hosiery, swimwear and sleepwear.

We produce garments for icon brands such as Nike as well as house branded garments for our key retail partners Target and Kmart. We are also the principal apparel licensee for the iconic Australian brand Holden.

Australian Horizons is flexible enough to meet the needs of any business or brand, be it a pure manufacturing relationship or a brand licensing relationship.

The development of our own brands has also been a successful cornerstone of our business. Brands we own and market include Beach Crew, Booomdoggers and Be De Girls.

**Boomdoggers Hoodie**

**Teenage Mutant Ninja Turtles Boxers**

# PIRATES!

## Don't be afraid. Be excited!

## Captain Jack is Back!

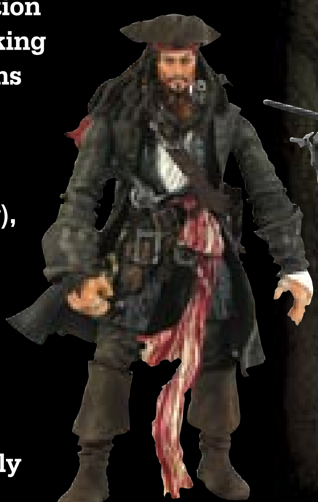
**Yes it's true! Jack is back!**

**Pirates of the Caribbean: Dead Man's Chest sees Johnny Depp back as the infamous pirate Captain Jack Sparrow in another fantastic, high seas adventure.**

**Discovering that he owes a blood debt to the legendary Davey Jones, Captain of the ghostly Flying Dutchman, Captain Jack, with time running out, must find a way out of his debt or else be doomed to eternal damnation and servitude in the afterlife. Making matters worse, Sparrow's problems manage to interefere with the wedding plans of a certain Will Turner (Orlando Bloom) and Elizabeth Swann (Keira Knightley), who are forced to join Jack on yet another one of his misadventures.**

**Pirates of the Caribbean: Dead Man's Chest is packed with action, intrigue, comedy and amazing special effects – you really have no reason to be afraid.**

**opens July 7, 2006**

# Bratz Boutique™

If you've got a passion for fashion...

Got nothing to wear? Wondering what look is hot right now? Let the Bratz™ inspire you with some mix and match favourites from Bratz™ Boutique™.

Pants with up & down stripes can make you look taller

Try on lots of clothes to work out what style suits you

Stylish & Glamorous

Cute & Funky

Match a bright belt with a handbag in the same colour

Each Bratz™ Boutique™ Fashion Pack comes with a collectable fashion mannequin to display your latest look AND two hot Bratz™ Fashion outfits!

Bratz™ Boutique™ fashion packs are available NOW from all good toy retailers

FREE!

# $$Financial$

## Your company in detail!

### Includes Directors' Report and Corporate Governance Statement!


**Funtastic Board of Directors**

Harry Boon, Moshe Meydan, Geoff Tomlinson, David Hendy, David Berry and Tony Oates

## Your quick guide to what's Inside!

# Directors Report

**The Directors of Funtastic Limited submit herewith the annual financial report of the Company for the year ended 31 December 2005. In order to comply with the provisions of the Corporations Act 2001, the Directors' Report as follows:**

## Directors

The following persons were Directors of the Company during the whole of the financial year and up to the date of this report:

Geoff Tomlinson
David Hendy
David Berry
Moshe Meydan
Harry Boon
Tony Oates

## Company Secretary

David Berry, a director, holds the position of Company secretary

## Principal Activities

The Company's principal continuing activity during the year consisted of wholesale, marketing, licensing and distribution of products: including children's toys, bags, stationery, infant, confectionery, footwear, hobby products, and publishing, homeware and apparel products.

| Results | 2005 $ | 2004 $ |
|---|---|---|
| Consolidated operating profit after income tax | **21,611,526** | **15,948,522** |

| Earnings per Share | 2005 cents | 2004 cents |
|---|---|---|
| Basic earnings per share | **17.1** | **13.1** |
| Diluted earnings per share | **16.2** | **12.3** |

## Review of Operations

Highlights of the results for the year ended 31 December 2005 (AIFRS) were:

- Net Sales of $345.7m (up 11.1% on $311.3m in 2004)
- Earnings Before Interest and Tax and Amortisation (EBITA) of $35.5m (up 37.6% on $25.8m in 2004)
- EBITA margin improved to 10.3% of Net Sales in 2005 (vs. 8.3% in 2004)
- Net Profit After Tax (NPAT) AIFRS of $21.6m (up 35.8% on $15.9m in 2004)
- Net cashflow from Operating Activities of $27.8m (up 132% on $12.0m in 2004)
- Directors declared a final fully franked dividend of 6.5 cents per share (making the total for the 2005 year 10.5 cents, an increase of 23.5% over the 8.5 cents paid in 2004). This final dividend was paid on 6 April 2006, with a record date of 21 March 2006.

Funtastic's 2005 NPAT (AIFRS) excluding contributions from Planet Fun and Dorcy Irwin Pacific acquisitions of $17.5m represents a 10% increase on 2004 reported NPAT (AIFRS) of $15.9m.

Other highlights during 2005 included the success of Planet Fun (the New Zealand subsidiary acquired on 1 January 2005), the acquisition of Dorcy Irwin Pacific in August 2005 (further consolidating Funtastic's market leading position in Toys), licensing wins across the business including Holden™ Apparel and Pirates of the Caribbean™ and the continued success of proprietary brands including the Quicksmart™ range.

Return on Shareholders Funds in 2005 increased to 20.2% from 17.2% in 2004. The Company maintained a strong balance sheet with gearing at an average of 31.4% for the year, with working capital management contributing to improvements in operating efficiency. The recent divestment of the non-licensed electrical business was consistent with the goal of improving shareholder returns.

The Message to Shareholders, which appears on pages 2 to 4, forms part of the Directors' Report for the year ended 31 December 2005 and are to be read in conjunction with this report.

## Dividends

(a) In respect of the year ended 31 December 2005, the Directors of the Company have resolved to pay an interim and final dividend (fully franked) which totals 10.5 cents. This compares to 8.5 cents in respect to the previous corresponding period

(b) The dividends paid during the year amounted to $11,373,026 comprising a final dividend for the 2004 year of $6,294,482 (5 cents per share) paid on 6 April 2005 and an interim dividend for the 2005 year of $5,078,544 (4 cents per share) paid on 14 October 2005

(c) The Directors resolved to pay a final dividend for the 2005 year of $8,263,034 representing 6.5 cents per share, payable on 6 April 2006 with the record date on 21 March 2006

## Matters Subsequent to the End of the Financial Year

On the 9 March 2006 the Company announced the retirement of Mr Geoff Tomlinson as a Director and Chairman effective 11 May 2006 and the appointment of Mr David Hendy as Non-executive Chairman, upon the retirement of Mr Tomlinson.

There are no other matters or circumstances that have arisen since 31 December 2005 that have significantly affected or may significantly affect:

(a) the Company's operations in future financial years;

(b) the results of those operations in future financial years; or

(c) the Company's state of affairs in future financial years.

## Significant Changes in the State of Affairs

There was no significant change in the state of affairs of the Company, during the year.

## Future Developments

At the date of this report, there are no likely developments in the operations of this Company required to be reported in accordance with sub-section 299(1)(e) of the Corporations Act 2001.

## Information on Directors

**Geoff Tomlinson BEc**

Experience – Chairman and Director of several Public Companies
Special Responsibilities – Chairman, Non-Executive Director, Chair of the Nomination Committee, member of Audit, Risk & Compliance Committee and Remuneration & Evaluation Committee.
Other current Directorships of listed companies – Chairman of Programmed Maintenance Services Limited and Dyno Nobel Limited, Director of National Australia Bank Limited and Amcor Packaging Limited.
Former Directorships in last 3 years – Chairman of Reckon Limited (Jun 1999 to Aug 2004) Director of Mirrabooka Investments Limited (Feb 1999 to Mar 2006), Director of Neverfail Spring Water Ltd (Apr 1999 to Sept 2003) and Deputy Chairman of Hansen Technologies Limited (Mar 2000 to Mar 2006).
Shares – 1,092,220
Share Options – nil

**David Hendy**

Experience – Managing Director of Funtastic for 10 years and 24 years experience in the Toy Industry.
Special Responsibilities – Executive Director, member of Nomination Committee.
Other current Directorships of listed companies – Director of Repco Limited.
Former Directorships in last 3 years – None
Shares – 5,789,650
Share Options – 250,000

**David Berry BCom FCA FTIA**

Experience – Chartered Accountant for 31 years and Partner of an Accounting Firm for 22 years.
Special Responsibilities – Non-executive Director, Chairman of the Audit, Risk and Compliance Committee, member of the Remuneration & Evaluation Committee and Nomination Committee.
Other current Directorships of listed companies – None
Former Directorships in last 3 years – None
Shares – 180,047
Share Options – nil

**Harry Boon LLB (Hons) BCom**

Experience – Broad international commercial experience and Director of several public companies.
Special Responsibilities – Non-executive Director, Chairman of the Remuneration & Evaluation Committee and member of the Audit, Risk & Compliance Committee and Nomination Committee
Other current Directorships of listed companies – Chairman Gale Pacific Limited, Director of Hastie Group Limited and Tattersall's Limited.
Former Directorships in last 3 years – Ansell Limited (Apr 2002 to Jun 2004)
Shares – 20,000
Share Options – nil

**Moshe Meydan**

Experience – Established the Australian Horizons Group in 1982 and has had over 24 years extensive experience in the Apparel Industry.
Special Responsibilities – Executive Director, member Nomination Committee.
Other current Directorships of listed companies – None
Former Directorships in last 3 years – None
Shares – 7,946,479
Share Options – 182,000

**Tony Oates**

Experience – Broad experience in the Wholesale Industry.
Special Responsibilities – Managing Director, member Nomination Committee.
Other current Directorships of listed companies – None
Former Directorships in last 3 years – None
Shares – 545,870
Share Options – 349,000

## Meetings of Directors

The numbers of meetings of the Company's Directors held during the year ended 31 December 2005, and the number of meetings attended by each Director were:

| Number of Meetings Held | Board of Directors | | Audit Committee | | Remuneration Committee | | Nomination Committee | |
|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B |
| G Tomlinson | 16 | 16 | 4 | 4 | 4 | 4 | - | - |
| D Berry | 16 | 14 | 4 | 4 | 4 | 4 | - | - |
| H Boon | 16 | 15 | 4 | 4 | 4 | 4 | - | - |
| D Hendy | 16 | 15 | - | - | - | - | - | - |
| M Meydan | 16 | 16 | - | - | - | - | - | - |
| T Oates | 16 | 15 | - | - | - | - | - | - |

Column A indicates the number of meetings eligible to attend during the period the Director was a member of the Board and/or Committee.
Column B indicates the number of meetings attended during the period the Director was a member of the Board and/or Committee.

There were no meetings of the Nomination Committee held during the year.

## Shares Under Option

Details of shares under option are detailed in Note 38 of the Financial Statements.

## Share Performance Rights

Details of shares under performance rights are detailed in Note 38 of the Financial Statements.

## Shares Issued on the Exercise of Options

Details of shares issued on the exercise of options are detailed in Note 38 of the Financial Statements.

## Insurance of Officers

During the financial year the Company paid a premium in respect of a contract insuring the Directors of the Company (as named above) and all Executive Officers of the Company and of any related body corporate against a liability incurred as such Director, Secretary or Executive Officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

## Remuneration Report

The Directors of Funtastic Limited present the Remuneration Report prepared in accordance with section 300A of the Corporations Act for the Company and the consolidated entity for the year ended 31 December 2005.

## Non-executive Directors Remuneration

## Policy

Non-executive Director remuneration is not linked to performance to maintain independence and impartiality.

## Directors Fees

Fees and payments to Non-executive Directors reflects the demands made on, and the responsibilities of the Directors. Remuneration of Non-executive Directors is determined by the Board, as advised by the Remuneration & Evaluation Committee, within the maximum amount approved by the shareholders from time to time.

The maximum aggregate remuneration for Non-executive Directors of $500,000 per annum was approved by shareholders at the Annual General Meeting held on 27 April 2004.

Board fees are currently:

- Chairman's fee $140,000 p.a.;
- Non-executive Directors' fees $70,000 p.a.; and

Committee fees are currently paid in recognition of additional workload and responsibilities as follows:

- Audit Committee Chairman's fee $10,000 p.a.

Superannuation contributions are deducted from fees paid to Non-executive Directors as required by Commonwealth legislation. The Company pays no other retirement benefits to Directors.

Details of the nature and amount of each element of the emoluments of each Non-executive Director of Funtastic Limited for the year ended 31 December 2005 are set out in the following tables.

| | Short-term<br>Cash salary, fees and allowances<br>$ | Post-employment<br>Superannuation<br>$ | Total<br>$ |
|---|---|---|---|
| Geoff Tomlinson | 128,440 | 11,560 | 140,000 |
| David Berry | 74,345 | - | 74,345 |
| Harry Boon | 70,000 | - | 70,000 |
| **Total** | **272,785** | **11,560** | **284,345** |

The total remuneration for all Directors for 2004 is detailed in Note 28 to the financial statements contained in the Financial Report 2005.

## Executive Director and Senior Executive Remuneration

The names of the Specified Executive Directors and Specified Executives (including a former Executive) referred to in this Report are listed below. This group of Executives also incorporates the five highest remunerated Executives.

**David Hendy**
*Managing Director* (retired as Managing Director 31 Dec 2005)

**Moshe Meydan**
*Executive Director*

**Tony Oates**
*Deputy Managing Director* (appointed as Managing Director 1 Jan 2006)

**Ian Ashmore**
*General Manager – Publishing & Entertainment*

**Colin Caulfield**
*Chief Operating Officer*

**Karl Nixon**
*Chief Financial Officer*

**John Redenbach**
*Group General Manager – Hardgoods* (appointed 1 June 2005)

**Robert Vasy**
*General Manager Toys, Nursery and Sporting*

**Tracey Leslie**
*General Manager – Softgoods (resigned 31 January 2006)*

## Policy

To link management rewards to the creation of value for shareholders.

## Principles of Remuneration

The Remuneration & Evaluation Committee, makes specific recommendations to the Board on remuneration packages and other terms of employment for Executive Directors and other senior Executives. The Board then considers these recommendations, and makes appropriate determinations, with remuneration packages set at a level that is intended to attract and retain Executives capable of managing the consolidated entity's diverse operations.

Remuneration of the Senior Executives is reviewed on an annual basis by the Remuneration & Evaluation Committee having regard to personal and corporate performance and relevant comparative information. Remuneration for senior Executives comprises both fixed remuneration and an "at risk" component. The "at risk" component comprises a short term incentive payment based on a combination of the Company's results and individual performance levels, and a long term incentive component pursuant to the Funtastic Executive Share Option Plan.

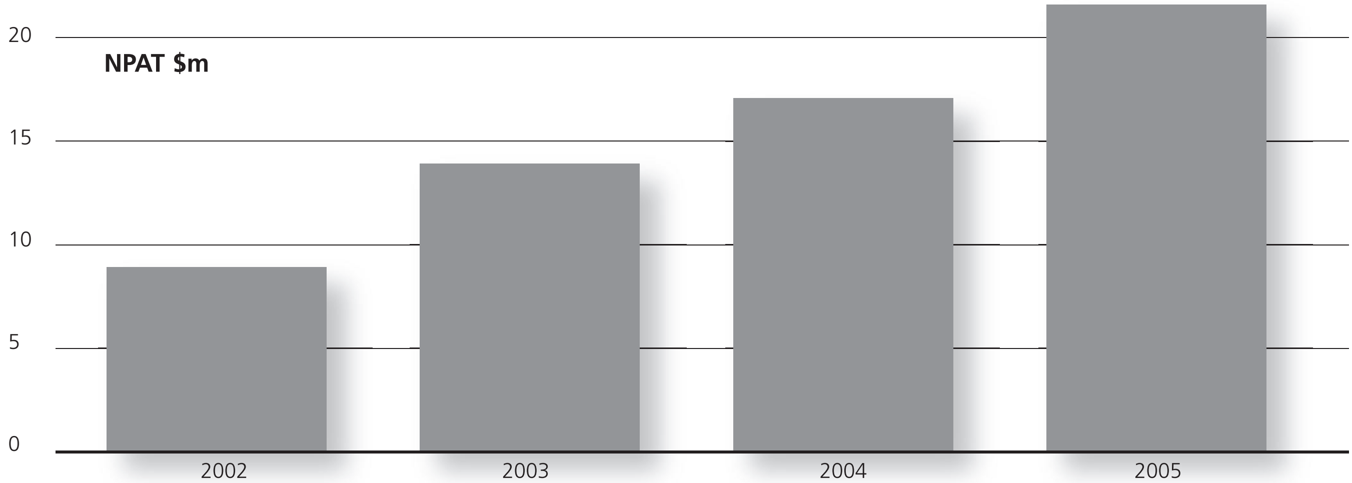
The payment of short term incentives is dependent on the achievement of operating and financial targets set at the beginning of each year and are assessed on an annual basis.

Remuneration and other terms of employment for Senior Executives are formalised in service agreements.

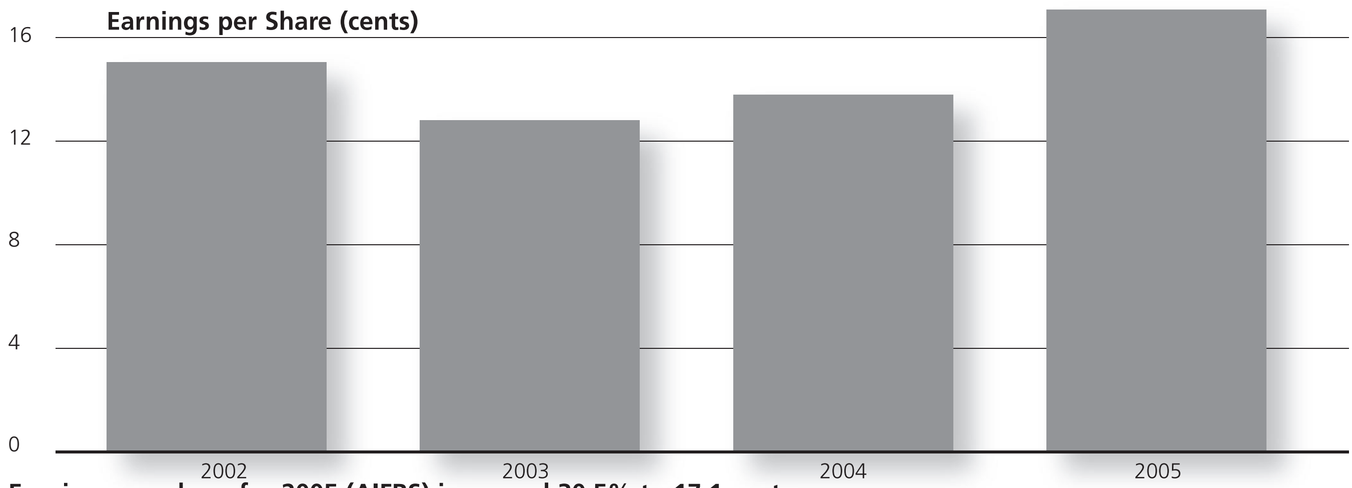
## Remuneration Report (cont.)

## Remuneration and Company Performance

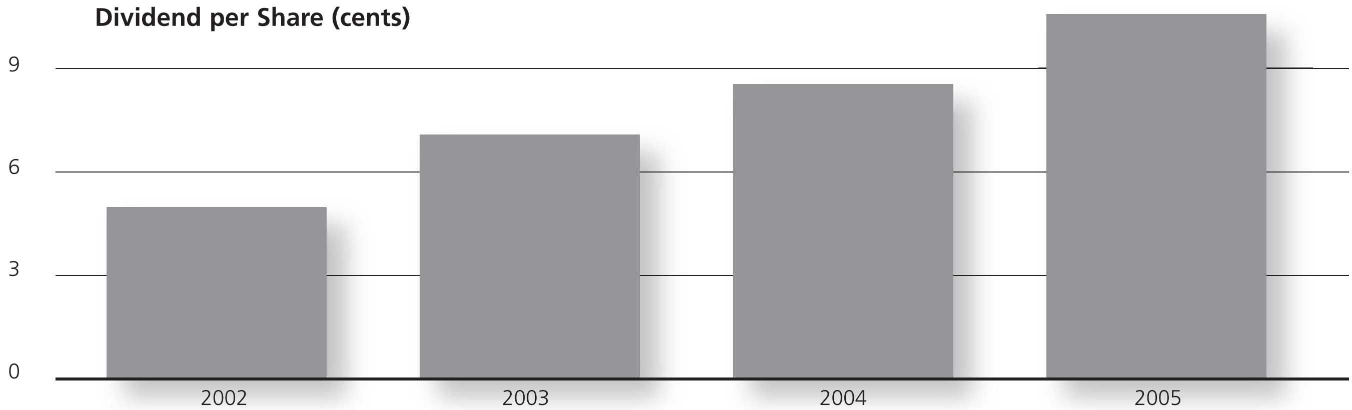
The graphs below shows the Funtastic Limited Net Profit after Tax (NPAT) and, in addition, Earnings per Share (EPS) growth since 2002. These two financial measures have been the central performance measures for the Company's incentive plans for Executives since listing. Other measures include revenue growth, Return on Average Funds Employed, net operating cash flow and other business objectives.




**Over the past 4 years, NPAT has increased from $9.0 million to $21.6 million**
and represents a compound annual growth rate of 33.9% per annum. In 2005 NPAT margin as a percentage of revenue increased to 6.3% from 5.4% in 2004.




**Earnings per share for 2005 (AIFRS) increased 30.5% to 17.1 cents.**
Note that the 2002 EPS result was impacted by the JNH Australia acquisition, in that the profits were accounted from June 2002, but the shares used to pay for the acquisition were not issued until November 2002. If the number of shares outstanding at 31/12/02 were used to calculate the 2002 EPS it would have been 9 cents rather than 15 cents.




**Since 2002, Dividends per share have increased from 5 cents per share to 10.5 cents per share**
and represents a compound annual growth rate over the period of 28.1% per annum. The 2005 Dividend per share of 10.5 cents represents a 23.5% increase over the 8.5 cents paid in 2004.

## Remuneration Report (cont.)

Details of the nature and amount of each element of the emoluments of each Executive Director and specified Executive of Funtastic Limited for the year ended 31 December 2005 are set out in the following tables.

## Executive Directors

| | Primary | | | Post-employment | | Share-based payments | |
|---|---|---|---|---|---|---|---|
| | Cash salary, fees and allowances | Cash bonus | Non-monetary benefits | Superannuation | Termination benefits | Options | Total |
| | $ | $ | $ | $ | $ | $ | $ |
| David Hendy (1) | 478,211 | 87,750 | - | 73,039 | 180,707 | 35,937 | 855,644 |
| Moshe Meydan | 234,231 | 112,500 | - | 74,461 | - | 18,381 | 439,573 |
| Tony Oates | 278,914 | 64,000 | 88,058 | 33,028 | - | 20,098 | 484,098 |
| **Total** | **991,356** | **264,250** | **88,058** | **180,528** | **180,707** | **74,416** | **1,779,315** |

(1) David Hendy retired as Managing Director on 31 Dec 2005 but continued as an Executive Director. Subsequent to the end of the financial year he was appointed Non-executive Chairman with effect from 11 May 2006. Termination benefits paid reflect annual leave and long service leave entitlements payable on retirement.

## Executives

| | Primary | | | Post-employment | | Share-based payments | |
|---|---|---|---|---|---|---|---|
| | Cash salary, fees and allowances | Cash Bonus | Non-monetary benefits | Superannuation | Termination benefits | Options | Total |
| | $ | $ | $ | $ | $ | $ | $ |
| Ian Ashmore | 223,907 | 5,250 | - | 21,001 | - | 13,703 | 263,861 |
| Colin Caulfield | 264,929 | 51,400 | - | 26,319 | - | 20,307 | 362,955 |
| Tracey Leslie (2) | 201,031 | 15,000 | 30,224 | 23,053 | - | 16,606 | 285,914 |
| Karl Nixon | 194,175 | 45,250 | 16,834 | 19,441 | - | 5,318 | 281,018 |
| John Redenbach *(From 1 June 2005 to 31 Dec 2005)* | 103,819 | - | 83,292 | 13,338 | - | 6,353 | 206,802 |
| Robert Vasy | 108,675 | 45,590 | 123,140 | 24,516 | - | 19,844 | 321,765 |
| **Total** | **1,096,536** | **162,490** | **253,490** | **127,668** | - | **82,131** | **1,722,315** |

(2) Subsequent to the end of the financial year Tracey Leslie resigned, effective from 31 Jan 2006.

The amounts disclosed above in relation to cash bonuses include any under accrual of 2004 bonuses paid during 2005, where applicable.

## Components of Remuneration

## Fixed Remuneration

The terms of employment for all Executive management contain a fixed remuneration component, which is expressed in local currency. This fixed component is set in accordance with the market rate for a comparable role by reference to appropriate external benchmark information and having regard to an individual's responsibilities, performance, qualifications, experience and location. An Executive's remuneration is also reviewed on promotion.

Fixed remuneration includes contributions to superannuation and pension plans in accordance with relevant legislation or as contractually required.

Fixed remuneration is structured as a total employment cost package which may be delivered to the Executive as a mix of cash and prescribed non-financial benefits at the Executive's discretion.

There are no guaranteed pay increases in any Senior Executives' contracts.

Benefits for termination of employment may be payable subject to the circumstances of the termination and within the terms of the employment contract.

## At Risk Remuneration

## Annual Bonus

The cash bonus included in the above tables represents the actual entitlements payable under Funtastic's annual short-term incentive program (STI). Details are set out below of the amount available for the bonus and the performance conditions that were required to be satisfied in order for the bonus to be payable.

The STI plan is a cash-based plan that involves linking specific targets (predominantly financial) with the opportunity to earn incentives based on a percentage of fixed salary. In relation to members of the Senior Executive team, this generally comprises an amount of between 25% and 40% (Managing Director 50%) of their fixed annual remuneration for achieving a range of target performance criteria.

In general, the performance measures for 2005 were based on NPAT targeted sales growth, inventory levels, Return on Average Funds Employed, product category earnings, net operating cash flow and other business objectives with proportions applicable to each component determined according to the respective executive's level and area of responsibility.

Performance against these objectives was determined and incentives paid only following the completion of the audit of the financial accounts.

Specific information relating to the percentage of the STI payable and the percentage of the awards at target level that was not achieved for the Managing Director and the Senior Executives of the Group are set out in the table following.

## Remuneration Report (cont.)

| | Cash Bonus $ | Maximum Available Bonus $ | Paid % | Forfeited % |
|---|---|---|---|---|
| David Hendy | 87,750 | 438,750 | 20% | 80% |
| Moshe Meydan [3] | 92,500 | 148,500 | 62% | 38% |
| Tony Oates | 64,000 | 140,000 | 46% | 54% |
| Ian Ashmore | - | 87,500 | - | 100% |
| Colin Caulfield | 46,400 | 116,000 | 40% | 60% |
| Tracey Leslie | - | 64,100 | - | 100% |
| Karl Nixon | 45,250 | 80,500 | 56% | 44% |
| Robert Vasy | 35,000 | 89,250 | 39% | 61% |

(3) Cash bonus and available bonus for Moshe Meydan includes a proportion of $105,000 guaranteed for the period 1st July 2004 to 30th June 2005.

## Share Option Plan

## Share options granted

The Company's long-term incentive arrangements are designed to link Executives with growth in shareholder value through the grant of options over equity securities (shares) in the Company. Options are granted under the Company's Executive Share Option Plan (ESOP) which was approved by shareholders and directors of the Company on 2 August 2000.

Participation in the ESOP is offered to Executives who are able to, or who have the potential to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant performance hurdles.

In general, these Executives are offered a grant under the Plan which is designed to be the equivalent of up to 30% of their total remuneration (Managing Director 40% of fixed renumeration) on an annualised basis.

Options are granted under the Company's plan for no consideration. Options are granted over varying periods and on conditions and performance hurdles applicable to each issue of options. The options vest and become exercisable only when these specific criteria are met.

Options over un-issued ordinary shares granted during or since the end of the financial year to key management personnel (including 5 of the most highly remunerated) were as follows:

| | Grant date | Option Nr | Options granted | Expiry date | Exercise price per option | Fair value per option at grant date | Performance conditions |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| David Hendy | 29 Apr 2005 | 14 | 340,000 | 31 Mar 2007 | $2.0417 | $0.227 | 1 |
| Moshe Meydan | 29 Apr 2005 | 14 | 182,000 | 31 Mar 2007 | $2.0417 | $0.227 | 1 |
| Tony Oates | 29 Apr 2005 | 14 | 199,000 | 31 Mar 2007 | $2.0417 | $0.227 | 1 |
| **Executives** | | | | | | | |
| Ian Ashmore | 3 Aug 2005 | 20 | 100,000 | 31 Mar 2008 | $2.00 | $0.4112 | 2 |
| Colin Caulfield | 3 Aug 2005 | 20 | 142,373 | 31 Mar 2008 | $2.00 | $0.4112 | 2 |
| Tracey Leslie | 3 Aug 2005 | 20 | 81,223 | 31 Mar 2008 | $2.00 | $0.4112 | 2 |
| Karl Nixon | 3 Aug 2005 | 20 | 116,949 | 31 Mar 2008 | $2.00 | $0.4112 | 2 |
| John Redenbach | 3 Aug 2005 | 20 | 100,000 | 31 Mar 2008 | $2.00 | $0.4112 | 2 |
| Robert Vasy | 3 Aug 2005 | 20 | 100,000 | 31 Mar 2008 | $2.00 | $0.4112 | 2 |

Performance condition 1

50% exercisable if average diluted earnings per share (EPS) reaches or exceeds 13% per annum over a three year period commencing five years prior to the expiry date and Executive Director remaining in employment until 31 March 2007.

50% exercisable if average diluted earnings per share (EPS) reaches or exceeds 17% per annum over a three year period commencing five years prior to the expiry date and Executive Director remaining in employment until 31 March 2007.

Performance condition 2

50% exercisable if average diluted earnings per share (EPS) reaches or exceeds 13% per annum over a three year period commencing five years prior to the expiry date and Executive remaining in employment until 31 March 2008.

50% exercisable if average diluted earnings per share (EPS) reaches or exceeds 17% per annum over a three year period commencing five years prior to the expiry date and Executive remaining in employment until 31 March 2008.

The amounts disclosed above for remuneration relating to options are the assessed fair values of options at the date they were granted to Executives. Fair values have been determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The total value of options included in remuneration for the year is calculated in accordance with AASB 2 'Share Based Payments' where the value of options is determined at grant date, and are included in remuneration on a proportionate basis from grant date to vesting date.

## Remuneration Report (cont.)

## Value of Options Issued to Directors and Executives

| | Options Granted | Options Exercised | Options Lapsed | | | |
|---|---|---|---|---|---|---|
| | Value at grant date | Value at exercise date | Value at time of lapse | Total value of options granted, exercised and lapsed | Value of options included in remuneration for the year | % of total remuneration for the year that consists of options |
| | $ | $ | $ | $ | $ | % |
| David Hendy | 77,165 | 107,151 | (77,165) | 107,151 | 35,937 | 4.2% |
| Moshe Meydan | 41,306 | - | - | 41,306 | 18,381 | 4.2% |
| Tony Oates | 45,164 | - | - | 45,164 | 20,098 | 4.2% |
| Ian Ashmore | 41,123 | - | - | 41,123 | 13,703 | 5.2% |
| Colin Caulfield | 58,547 | - | - | 58,547 | 20,307 | 5.6% |
| Tracey Leslie | 33,401 | - | (10,153) | 23,248 | 16,605 | 5.8% |
| Karl Nixon | 48,093 | - | (51,613) | (3,520) | 5,318 | 1.9% |
| John Redenbach | 41,123 | - | - | 41,123 | 6,353 | 3.1% |
| Robert Vasy | 41,123 | - | - | 41,123 | 19,844 | 6.2% |

The model inputs for options granted during the year ended 31 December 2005 include;

| Option Nr | 14 | 20 |
|---|---|---|
| Issue Date | 29/4/2005 | 3/8/2005 |
| Vesting Date | 30/3/2007 | 31/3/2008 |
| Expiry Date | 2/4/2009 | 2/4/2010 |
| Exercise Price | $2.0417 | $2.0000 |
| Stock Price at Issue | $1.7200 | $2.0000 |
| Expected Life (years) | 2.92 | 3.66 |
| Volatility | 30% | 30% |
| Risk free rate | 5.25% | 5.25% |
| Dividend yield | 4.25% | 4.25% |
| Vesting period (years) | 1.92 | 2.66 |
| Value | $ 0.2270 | $ 0.4112 |

## Shares Provided on Exercise of Remuneration Options

Details of ordinary shares in the Company, issued during the year, as a result of the exercise of remuneration options to each Director of Funtastic Limited and each of the specified Executives of the consolidated entity are set out below.

| Name | Date of exercise of options | Number of ordinary shares issued on exercise of options during the year | Amount paid per share |
|---|---|---|---|
| Executive Directors of Funtastic Limited | | | |
| David Hendy | 19/08/2005 | 250,000 | $0.92 |
| Specified Executives of the consolidated entity | | | |
| Colin Caulfield | 30/08/2005 | 200,000 | $0.62 |

## Remuneration Report (cont.)

## Option Holdings

The number of options over ordinary shares in the Company held during the financial year by each Director of Funtastic Limited and each of the specified Executives of the consolidated entity, including their personally-related entities, are set out below.

| Name | Balance at the start of the year | Granted during the year as remuneration | Exercised during the year | Other changes during the year i.e. lapsed | Balance at the end of the year | Vested and exercisable at the end of the year |
|---|---|---|---|---|---|---|
| Executive Directors of Funtastic Limited | | | | | | |
| David Hendy | 500,000 | 340,000 | (250,000) | (340,000) | 250,000 | 250,000 |
| Tony Oates | 150,000 | 199,000 | - | - | 349,000 | 150,000 |
| Moshe Meydan | - | 182,000 | - | - | 182,000 | - |
| Specified Executives of the consolidated entity | | | | | | |
| Colin Caulfield | 492,000 | 142,373 | (200,000) | - | 434,373 | 50,000 |
| Robert Vasy | 165,000 | 100,000 | - | - | 265,000 | 25,000 |
| Tracey Leslie | 240,000 | 81,223 | - | (25,000) | 296,223 | 25,000 |
| Ian Ashmore | 131,000 | 100,000 | - | - | 231,000 | - |
| Karl Nixon | 175,000 | 116,949 | - | (125,000) | 166,949 | - |

No options are vested and un-exercisable at the end of the year.

## Service Agreements

Remuneration and other terms of employment for the Managing Director, Executive Directors and the specified Executives are formalised in service agreements/employment letters. Each of these provide for the provision of performance-related cash bonuses, other benefits including car allowances and participation, when eligible, in the Funtastic Limited Executive Share Option Plan.

Other major provisions of the agreements relating to remuneration are set out below.

David Hendy, Executive Director (retired as Managing Director 31 December 2005)

- Term of the agreement – until 11 May 2006 thereafter assumes the position of Non-executive Chairman with no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2005 in capacity as Managing Director of $551,250
- Payment of a termination benefit on early termination by the employer is not applicable.

Tony Oates, Managing Director (effective 1 January 2006)

- Term of the agreement – full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2005 in capacity of Deputy Managing Director of $400,000.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 3 months fixed remuneration.

Moshe Meydan, Executive Director

- Term of the agreement – 11 September 2003 to 1 July 2006
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2005 of $308,692
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 3 months fixed remuneration.

Ian Ashmore, General Manager – Publishing & Entertainment

- Term of the agreement – full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2005 of $244,909
- Payment of a termination benefit on early termination by the employer is not applicable.

Colin Caulfield, Chief Operating Officer

- Term of the agreement – full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2005 of $291,248.
- Payment of a termination benefit on early termination by the employer is not applicable.

Karl Nixon, Chief Financial Officer

- Term of the agreement – full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2005 of $230,450
- Payment of a termination benefit on early termination by the employer is not applicable.

Robert Vasy, General Manager – Toys, Nursery and Sporting

- Term of the agreement – full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2005 of $256,331
- Payment of a termination benefit on early termination by the employer is not applicable.

John Redenbach, General Manager – Hardgoods

- Term of the agreement - full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the period 1 June 2005 to 31 December 2005 of $200,449
- Payment of a termination benefit on early termination by the employer is not applicable.

Tracey Leslie, General Manager – Softgoods

- Agreement terminated on resignation effective 31 January 2006
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2005 of $254,308

## Environmental Regulation

The Company is not subject to any significant environmental regulation in respect of any of its activities.

## Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

## Non-audit Services

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the Auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Details of the amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 29 to the Financial Statements.

## Auditor's Independence Declaration

A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 22.

This report is made in accordance with a resolution of the Directors.

| | |
|---|---|
| G Tomlinson | T Oates |
| Chairman | Managing Director |

Melbourne

27 March 2006

RSM! Bird Cameron Partners
Chartered Accountants

Level 8 Rialto South Tower
525 Collins Street Melbourne Vic 3000
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**AUDITOR'S INDEPENDENCE DECLARATION**

As lead audit partner for the audit of the financial statements of Funtastic Limited for the financial year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

**RSM BIRD CAMERON PARTNERS**

**Chartered Accountants**

**P A RANSOM**

**Partner**

**27 March, 2006**

**Melbourne**

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## 1. Corporate Governance Statement

A description of the Company's main corporate governance practices are set out below. Unless otherwise stated, all these practices were in place for the entire year.

## 2. The Board of Directors

The Board comprises three Non-executive Directors, including the Chairman, and three Executive Directors. The term of office, expertise, experience, and qualifications of each Director in office at the date of the annual report are included in the Directors Report on page 13.

The Board seeks to ensure that:

- its membership represents an appropriate balance between Directors with experience and knowledge of Funtastic and Directors with an external and fresh perspective;
- the size of the Board is conducive to effective discussion and efficient decision-making.

Current ASX guidelines recommend that a majority of the Board of Directors should be independent and lay down a series of tests for determining such independence. Two Non-executive Directors meet this strict test (Messrs Boon and Tomlinson). Funtastic is a growth Company operating in an entrepreneurial environment. It requires, and benefits from, the passionate involvement of Directors who have been instrumental in launching the Company and the business, and who have specialised knowledge of, and expertise in, this business sector.

The Board strongly believes that the degree of commitment, depth of experience and independence of thought present in the current Board structure is fully appropriate and will best serve the Company and all its shareholders at this early and crucial stage of its development.

The Board of Directors takes ultimate responsibility for corporate governance. There are clear operating principles which distinguish between the functions reserved to the Board and those delegated to management. Those principles include the following:

- the Board should comprise between 3 and 9 Directors;
- the maximum age for Directors is 72; and
- the Board should comprise Directors with a broad range of skills and experience.

The Board's key responsibilities are to:-

- establish, monitor and modify Funtastic's corporate strategies;
- ensure best practice corporate governance;
- appoint the Managing Director and approve succession plans;
- monitor the performance of Funtastic's management;
- ensure that appropriate risk management systems, internal control and reporting systems and compliance frameworks are in place and are operating effectively;
- monitor financial results;
- ensure that business is conducted ethically and transparently;
- approve decisions concerning Funtastic's capital, including capital restructures and dividend policy; and
- ensure effective external disclosure policies so that the market is fully informed on all matters that may influence the share price.

The Directors are accountable to shareholders for the proper management of Funtastic's business and affairs and delegate responsibility for day to day management to the Managing Director and Senior Executives.

To assist it in fulfilling its responsibilities there is an Audit, Risk & Compliance committee consisting of three current Non-executive Directors.

Directors are initially appointed by the full Board, subject to election by shareholders at the next annual general meeting, and re-election at regular intervals.

## 3. Chairman

The Chairman of the Board is an independent Non-executive Director who is elected by the full Board.

## 4. Independent Professional Advice

Directors have the right, in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, which will not be unreasonably withheld.

All Directors have unrestricted access to Company records and information and receive detailed financial and operational reports from Senior Management during the year to enable them to carry out their duties. Directors also liaise with senior management as required, and may consult with other employees and seek additional information on request.

## 5. Corporate Reporting

The Managing Director and Chief Financial Officer have made the following certifications to the Board:

- That the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards
- That the above statements are founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

## 6. Board Committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Nomination, Remuneration & Evaluation and Audit, Risk & Compliance committees. Each is comprised entirely of Non-executive Directors. The committee structure and membership is reviewed on an annual basis.

## 7. Audit, Risk and Compliance Committee

The Committee consists of the three Non-executive Directors:

David Berry - Chair
Geoff Tomlinson
Harry Boon

The responsibilities of the committee include:

- reviewing and ensuring the integrity of the financial report of the Company;
- ensuring the Company's accounting policies and practices are in accordance with current and emerging accounting standards;
- evaluating the external auditor's performance, including independence and objectivity and recommending to the Board the appointment and dismissal of external auditors;
- ensuring compliance with legal and regulatory requirements and policies in this regard;
- evaluating internal controls, and the overall efficiency and effectiveness of financial operations;
- providing a forum for communication between the Board, Executive leadership and external auditors;
- providing a conduit to the Board for external advice on audit and financial risk management; and
- ensuring that it is receiving adequate, up to date and reliable information.

The committee meets with the external auditors at least twice a year, more frequently if necessary. The external auditors have a clear line of direct communication at any time to the Chairman of the Board. The Managing Director, Chief Financial Officer and other Senior Executives as appropriate, are invited to Committee meetings at the discretion of the Committee. A formal Charter for the Committee is in place.

## 8. Risk Management

The Company is committed to the identification, monitoring, and management of risks associated with its business activities, and has embedded in its management and reporting systems a number of risk management controls. These include:

- guidelines and limits for approval of capital expenditure;
- policies and procedures for the management of financial risk and treasury operations including exposures to foreign currencies and movements in interest rates; and
- annual budgeting and monthly reporting systems for all businesses which enable the monitoring of progress against performance targets and the evaluation of trends.

Management is ultimately responsible to the Board for the system of internal control and risk management. The Audit, Risk & Compliance Committee assists the Board in monitoring this function.

## 9. Nomination Committee

The Committee consists of the following persons:

Geoff Tomlinson – Chair
Harry Boon
David Hendy
Tony Oates
Moshe Meydan
David Berry

The role of the Nomination Committee is to assist the Board in ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of a Director, having regard to the law and the highest standards of governance, by;

- assessing the skills, knowledge, experience and diversity required on the Board and the extent to which they are represented;
- establishing processes for the identification of suitable candidates for appointment to the Board; and
- overseeing succession planning for the Board.

## 10. Remuneration & Evaluation Committee

The Committee consists of the three Non-executive Directors:

Harry Boon – Chair
Geoff Tomlinson
David Berry

The role of the Committee is to:

- establish processes for the review of the performance of individual Directors and the Board as a whole
- determine Executive remuneration policy
- determine the remuneration of Non-executive Directors and Executive Directors; and
- review and approve all equity based-plans.

The Committee seeks advice and guidance from external consultants, the Managing Director and the Human Resources Manager as it considers appropriate. Non-Committee members attend Committee meetings only by invitation.

## 11. Performance Reviews

The Board plans to undertake an annual self assessment of its collective performance, the performance of the Chairman, its Directors and its Committees. New Directors are provided with a letter of appointment setting out the Company's expectations, their responsibilities, rights and the terms and conditions of their appointment. All new Directors participate in an induction program which covers the operation of the Board and its committees and financial, strategic, operations and risk management issues.

The review of the performance of the Managing Director is undertaken by the Remuneration and Evaluation Committee, which recommends to the Board any remuneration adjustment or incentive payment.

The review of the performance of Senior Management is undertaken by the Managing Director who provides a recommendation to the Remuneration & Evaluation committee on any remuneration adjustments or incentive payments. The Committee provides its recommendation to the Board for approval.

## 12. Director and Executive Remuneration Policy

Full details of the remuneration paid to Non-executive and Executive Directors are set out in the Remuneration Report on pages 15 to 20.

## 13. Code of Conduct

The Company has developed a code of conduct which applies to all employees of the organisation and sets out the standards within which employees are expected to act.

In summary, they are required to act with the utmost integrity, objectivity and in compliance with the law and Company policies at all times in their dealings with each other, competitors, customers, suppliers, the Company and the community.

Unethical conduct will not be tolerated. The Company intends that the spirit of the code will be adopted as well as the letter of the standards therein.

It is recommended Board policy that the purchase and sale of Company securities, by Directors, should only occur after reference to the Company Chairman, within a specific trading window and, for employees, by reference to the Company Secretary. It is recommended that the Chairman should seek approval from a minimum of two Directors to purchase or sell Company securities.

The code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of integrity and professionalism.

## 14. Continuous Disclosure

The Company secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements of the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, and shareholders.

The Company focuses on continuous disclosure of any information concerning the Company and its controlled entities that a reasonable person would expect to have a material effect on the price of the Company's securities.

## 15. External Audit

The Board has delegated to the Audit, Risk and Compliance Committee responsibility for making recommendations on the appointment, evaluation and dismissal of external auditors, and ensuring that the Auditor's report to the Committee and the Board.

It is policy for the external auditors to provide an annual declaration of independence to the Audit, Risk and Compliance Committee.

The External Auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Audit Report.

## 16. Shareholders

The Board aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders as follows:

- The annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document). The Board ensures that the annual report includes relevant information about the operations of the group during the year, changes in the state of affairs of the group and details of likely future developments, in addition to the other disclosures required by law.
- Proposed major changes in the group which may impact on share ownership rights are submitted to a vote of shareholders.
- ASX releases and media releases are made available on the Company's website.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are responsible for voting on the election of Directors.

## 17. Share Trading

All employees are prohibited from buying or selling shares in the Company at any time they are aware of any material price sensitive information that has not been made public, and are reminded of the laws against "insider trading". Certain "Designated Officers", including all Directors and Senior Executives, are also prohibited from trading in periods other than in three trading windows per annum. The trading windows commence following 48 hours after the public release of the half year and full year financial results as well as after the Annual General Meeting. Exceptions to this prohibition can be approved by the Chairman (for other Directors) or the Company Secretary (for all other employees) in circumstances of financial hardship. Prohibitions also apply to financial instruments related to Funtastic shares and to trading in the shares of other entities using information obtained through employment with Funtastic.
All Company share dealings by Directors are promptly notified to the Australian Stock Exchange (ASX).

## 18. Corporate Governance Disclosure

During the reporting period the Company has complied with the recommendations set out in the ASX Guidelines except that;

The Board comprises six Directors and it is aware that it does not include a majority of independent Directors. There are three Non-executive Directors, two of whom are independent.
David Berry is not independent as he fulfils the role of Company Secretary. The Board considers there is sufficient independence of thought on the Board and whilst a third independent Director may be appointed because of some specific attribute deemed appropriate, it is not considered immediately necessary for the proper functioning of the Board.

Similarly, the Board is aware that the Audit, Risk and Compliance committee is comprised of three Non-executive Directors, two of whom are independent. David Berry is the chair of the committee and whilst he is not independent, he is the most suitably qualified person because of his background as a chartered accountant and auditor. The Board considers that two independent Directors is sufficient for the independence of the committee.

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**INDEPENDENT AUDIT REPORT**

**To the members of Funtastic Limited**

**Scope**

We have audited the financial report, and the remuneration disclosures as required by Accounting Standard AASB 124 "Related Party disclosures" under the heading "remuneration report", of Funtastic Limited for the financial year ended 31 December 2005 as set out on pages 27 to 65 and 15 to 20, respectively. The Company's directors are responsible for the remuneration disclosures and the financial report which includes the financial statements of the Company and the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of, or during, the financial year. We have conducted an independent audit of the remuneration disclosures and the financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the remuneration disclosures, contained within the remuneration report, and the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows. We also performed procedures to assess whether the remuneration disclosures, contained within the remuneration report, comply with AASB 124 and Class Order 06/50 issued by the Australian Securities and Investments Commission.

The audit opinion expressed in this report has been formed on the above basis.

**Audit Opinion**

In our opinion:

(a) the financial report of Funtastic Limited is in accordance with the Corporations Act 2001, including:
  (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2005 and of their performance for the financial year ended on that date; and
  (ii) complying with Accounting Standards and the Corporations Regulations;

(b) the financial report of Funtastic Limited is in accordance with other mandatory professional reporting requirements in Australia; and

(c) the remuneration disclosures, included within the remuneration report, that are contained on pages 15 to 20 of the Directors' Report comply with Accounting Standard AASB 124 (Related Party Disclosures) and Class Order 06/50 issued by the Australian Securities and Investments Commission.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS
**Chartered Accountants**

Phillip A Ransom

**P A RANSOM**
**Partner**
**27 March, 2006**
**Melbourne**

# Directors Declaration

The Directors declare that the financial statements and Notes set out on pages 28 to 65:

(a) comply with Accounting Standards; and

(b) give a true and fair view of the Company and the consolidated entity's financial position as at 31 December 2005 and of their performance as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the Directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and

(b) there are reasonable grounds to believe that the Company and the consolidated entity will be able to pay their debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors.

G Tomlinson
Chairman

T Oates
Managing Director

Melbourne
27 March 2006

## Income Statement

For the year ended 31 December 2005

| | Note | Consolidated 2005 $ | Consolidated 2004 $ | Company 2005 $ | Company 2004 $ |
|---|---|---|---|---|---|
| Revenue from Ordinary Activities | 2 | 348,156,996 | 313,943,367 | 276,849,093 | 277,677,244 |
| Cost of goods sold | | (234,732,616) | (218,330,191) | (182,544,490) | (183,578,349) |
| Warehouse and occupancy expenses | | (25,568,096) | (23,374,090) | (22,586,725) | (23,371,255) |
| Marketing expenses | | (14,299,239) | (12,366,786) | (10,464,967) | (12,374,951) |
| Selling expenses | | (20,843,812) | (17,606,994) | (17,910,044) | (16,858,897) |
| Administration and finance expenses | | (17,654,334) | (16,435,625) | (15,147,246) | (16,373,125) |
| Borrowing costs expenses | | (3,827,340) | (2,459,346) | (2,187,837) | (2,457,547) |
| Profit from Ordinary Activities before Income Tax Expense | | 31,231,559 | 23,370,335 | 26,007,784 | 22,663,120 |
| Income tax expense | 4 | (9,620,033) | (7,421,813) | (7,666,118) | (7,421,813) |
| Net Profit | | 21,611,526 | 15,948,522 | 18,341,666 | 15,241,307 |
| **Total changes in equity other than those resulting from transactions with owners as owners** | | **21,611,526** | **15,948,522** | **18,341,666** | **15,241,307** |

| Earnings per share for profit attributable to the ordinary equity holders of the Company | 34 | Cents | Cents |
|---|---|---|---|
| Basic earnings per share | | 17.1 | 13.1 |
| Diluted earnings per share | | 16.2 | 12.3 |

The above Income Statement should be read in conjunction with the accompanying notes.

## Balance Sheet

As at 31 December 2005

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | Note | $ | $ | $ | $ |
| **Current Assets** | | | | | |
| Cash assets | 6 | 15,113,133 | 18,214,753 | 9,023,552 | 18,214,753 |
| Receivables | 7 | 58,068,338 | 42,466,150 | 40,637,817 | 39,202,056 |
| Inventories | 8 | 52,060,131 | 47,697,859 | 43,957,228 | 47,694,712 |
| Other | 9 | 7,590,341 | 5,551,517 | 6,612,476 | 5,551,517 |
| Other current financial assets | 10 | 240,849 | - | 22,563,513 | 50,951 |
| **Total Current Assets** | | **133,072,792** | **113,930,279** | **122,794,586** | **110,713,989** |
| **Non-Current Assets** | | | | | |
| Property, plant and equipment | 11 | 8,402,947 | 6,335,985 | 7,071,297 | 5,687,319 |
| Investments | 12 | - | - | 55,639,977 | 30,801,229 |
| Intangibles | 13 | 70,920,004 | 38,954,346 | 20,030,826 | 20,030,826 |
| Deferred tax assets | 14 | 2,262,798 | 1,973,248 | 1,843,170 | 1,973,248 |
| Total Non-Current Assets | | 81,585,749 | 47,263,579 | 84,585,270 | 58,492,622 |
| **Total Assets** | | **214,658,541** | **161,193,858** | **207,379,856** | **169,206,611** |
| **Current Liabilities** | | | | | |
| Payables | 15 | 15,966,255 | 21,581,561 | 13,435,535 | 19,758,514 |
| Interest bearing liabilities | 16 | 384,862 | 95,756 | 84,165 | 95,756 |
| Current tax liabilities | 17 | 3,655,393 | 299,729 | 1,583,991 | 299,729 |
| Other | 18 | 120,978,592 | 13,207,667 | 16,761,737 | 12,978,421 |
| Deferred purchase consideration | 33 | 6,303,552 | - | 2,566,980 | - |
| Other current financial liabilities | 19 | 661,116 | - | 661,116 | - |
| **Total Current Liabilities** | | **47,949,769** | **35,184,713** | **35,093,524** | **33,132,420** |
| **Non-Current Liabilities** | | | | | |
| Payables | 20 | - | - | 14,720,434 | 14,639,099 |
| Interest bearing liabilities | 21 | 50,262,540 | 26,088,555 | 50,061,940 | 26,088,555 |
| Provisions | 22 | 939,318 | 865,361 | 734,900 | 865,361 |
| Deferred tax liabilities | 23 | 1,030,574 | - | 222,255 | - |
| **Total Non-Current Liabilities** | | **52,232,432** | **26,953,916** | **65,739,529** | **41,593,015** |
| **Total Liabilities** | | **100,182,201** | **62,138,629** | **100,833,053** | **74,725,435** |
| **Net Assets** | | **114,476,340** | **99,055,229** | **106,546,803** | **94,481,176** |
| **Equity** | | | | | |
| Contributed equity | 24 | 76,411,289 | 71,483,309 | 76,411,289 | 71,483,309 |
| Retained profits | 26 | 35,913,170 | 25,674,670 | 28,069,256 | 21,100,617 |
| Other Reserves | 25 | 2,151,881 | 1,897,250 | 2,066,258 | 1,897,250 |
| **Total Equity** | | **114,476,340** | **99,055,229** | **106,546,803** | **94,481,176** |

The above Balance Sheet should be read in conjunction with the accompanying notes.

## Statement of Changes in Equity

For the year ended 31 December 2005

| | Note | Consolidated 2005 $ | Consolidated 2004 $ | Company 2005 $ | Company 2004 $ |
|---|---|---|---|---|---|
| Total Equity At The Beginning of the Year | | 99,055,229 | 87,351,322 | 94,481,176 | 83,484,484 |
| Adjustment in adoption of accounting policies specified by AASB 132 and AASB 139 | | (796,114) | - | (796,114) | - |
| Cash flow hedge, net of tax | | 971,243 | - | 971,243 | - |
| Interest rate hedge, net of tax | | (469,316) | - | (469,316) | - |
| Exchange differences on translation of foreign operations | | 85,624 | - | - | - |
| Share based payments | | 504,453 | 1,523,636 | 504,453 | 1,523,636 |
| Net Income Recognised In Equity | | 295,890 | 1,523,636 | 210,266 | 1,523,636 |
| Profit for the Year | | 21,611,526 | 15,948,522 | 18,341,666 | 15,241,307 |
| Total Recognised Income and Expense for the Year | | 21,907,416 | 17,472,158 | 18,551,932 | 16,764,943 |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Contributions of equity, net of transaction costs | 24 | 4,886,721 | 4,686,264 | 4,886,721 | 4,686,264 |
| Dividends provided for or paid | 5 | (11,373,026) | (10,454,515) | (11,373,026) | (10,454,515) |
| **Total Equity** | | **114,476,340** | **99,055,229** | **106,546,803** | **94,481,176** |

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

## Statements of Cash Flows

For the year ended 31 December 2005

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | Note | $ | $ | $ | $ |
| Cash Flows from Operating Activities | | | | | |
| Receipts from customers (inclusive of GST) | | 385,927,430 | 344,729,470 | 301,820,017 | 308,437,518 |
| Payments to suppliers and employees (inclusive of GST) | | (347,411,156) | (322,761,013) | (276,959,048) | (285,912,808) |
| | | **38,516,274** | **21,968,457** | **24,860,969** | **22,524,710** |
| Interest received | | 209,269 | 306,930 | 163,396 | 293,237 |
| Income taxes paid | | (7,399,152) | (7,748,853) | (5,578,067) | (7,668,593) |
| Interest and other costs of finance paid | | (3,520,969) | (2,536,383) | (2,187,837) | (2,534,584) |
| **Net Cash Inflow from Operating Activities** | **31** | **27,805,422** | **11,990,151** | **17,258,461** | **12,614,770** |
| Cash Flows from Investing Activities | | | | | |
| Payments for acquisition of businesses | | (28,308,176) | (159,852) | (18,624,936) | (161,829) |
| Payments for property, plant and equipment | | (3,099,219) | (2,892,572) | (2,925,008) | (2,892,572) |
| Proceeds from sale of property, plant and equipment | | 304,725 | 165,368 | 78,976 | 114,364 |
| Loans to related parties | | - | - | (19,160,825) | - |
| **Net Cash Outflow from Investing Activities** | | **(31,102,670)** | **(2,887,056)** | **(40,631,793)** | **(2,940,037)** |
| Cash Flows from Financing Activities | | | | | |
| Dividends paid | | (10,409,449) | (7,722,445) | (10,409,449) | (7,722,445) |
| Proceeds from issue of shares | | 629,786 | 1,525,193 | 629,786 | 1,525,193 |
| Proceeds from borrowings | | 23,976,828 | 4,520,172 | 24,057,550 | 4,520,172 |
| Repayment of borrowings | | (13,659,716) | (10,863,387) | - | (10,863,387) |
| Repayment of hire purchase liabilities | | (374,825) | (225,639) | (95,756) | (157,668) |
| **Net Cash Inflow/(Outflow) from Financing Activities** | | **162,624** | **(12,766,106)** | **14,182,131** | **(12,698,135)** |
| **Net Increase/(Decrease) in Cash Held** | | **(3,134,624)** | **(3,663,011)** | **(9,191,201)** | **(3,023,402)** |
| Cash at the beginning of the financial year | | 18,214,753 | 21,877,764 | 18,214,753 | 21,238,155 |
| Net Foreign Exchange differences | | 33,004 | - | - | - |
| **Cash at the End of the Financial Year** | **6** | **15,113,133** | **18,214,753** | **9,023,552** | **18,214,753** |

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to and Forming Part of the Financial Statements 31 December 2005

## Index to Notes



## Note 1. Accounting Policies

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian equivalents to International Financial Reporting Standards (AIFRS) and other authoritative pronouncements of the Accounting Standards Board and Urgent Issues Group Interpretations.

### (a) Basis of Preparation

These financial statements have been prepared under the historical cost convention, except derivative financial instruments that have been measured at fair value.

In the application of AIFRS management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods is the revision affects both current and future periods.

Judgements made by management in the application of AIFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The consolidated entity changed its accounting policies on 1 January 2005 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 January 2004 as the date of transition. An explanation of how the transition from superseded policies to AIFRS has affected the Company's and consolidated entity's financial position, financial performance and cash flows is discussed in note 39.

The Directors have also elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 119 'Employee Benefits' (December 2004), even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2006.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004, and in the preparation of the Opening AIFRS balance sheet as at 1 January 2004 (as disclosed in note 39), the consolidated entity's date of transition, except for the accounting policies in respect of financial instruments.

The consolidated entity has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information and the impact of changes in these accounting policies on 1 January 2005, the date of transition for financial instruments, is discussed further in note 1(u).

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

## Note 1. Summary of Significant Accounting Policies (cont.)

### (b) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax Consolidation

Funtastic Limited and its wholly owned Australian controlled entities implemented the tax consolidation legislation as at 31 December 2003. The result of this tax consolidation is not material to the financial statements.

### (c) Foreign Currency Translation

(i) Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Funtastic Limited's functional and presentation currency.

(ii) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group Companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### (d) Cash

For the purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

### (e) Revenue Recognition

Revenue is recognised net of returns, discounts, rebates, duties and taxes paid. A sale is recorded when goods have been dispatched to a customer pursuant to a sales order and the associated risks have been passed to the carrier or customer.

### (f) Depreciation of Property, Plant and Equipment

Depreciation is calculated on a diminishing value basis to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.
The expected useful lives are as follows:

| | |
|---|---|
| Plant and equipment | 2.5 to 10 years |

## Notes to and Forming Part of the Financial Statements 31 December 2005

### Note 1. Summary of Significant Accounting Policies (cont.)

#### (g) Receivables

All trade debtors are recognised at the amounts receivable as they fall due for settlement.

Recoverability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised where some doubt as to collection exists.

#### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of stock on the basis of weighted average costs.

#### (i) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition.

#### (j) Investments

Investments in listed and unlisted securities are brought to account at cost and dividend income is recognised in the profit and loss statement when receivable.

#### (k) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

#### (l) Leased Non-Current Assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets (finance leases), and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the economic entity will obtain ownership of the asset, the life of the asset. Lease assets held at the reporting date are being amortised over five years.

Lease payments are allocated between interest (calculated by applying the interest rate implicit in the lease to the outstanding amount of the liability), rental expense and reduction of the liability.

Other operating lease payments are charged to the profit and loss account in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

#### (m) Leasehold Improvements

The cost of improvements to or on leasehold properties is amortised over the estimated useful life of the improvement to the Company. Leasehold improvements held at the reporting date are being amortised over 5 years.

#### (n) Interest Bearing Liabilities

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

#### (o) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include:

- interest on bank overdrafts and short-term and long-term borrowings;
- finance lease charges; and
- certain exchange differences arising from foreign currency borrowings.

#### (p) Employee Benefits

(i) Wages and Salaries and Annual Leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave expected to be settled within 12 months of the reporting date are recognised in payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long Service Leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based Payments

Share-based compensation benefits are provided to employees via the Funtastic Executive Share Option Plan and Performance Share Rights Plans.

**(iv) Shares options and performance share rights granted before 7 November 2002 and/or vested before 1 January 2005**

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

## Note 1. Summary of Significant Accounting Policies (cont.)

### (p) Employee Benefits (cont.)

(v) Shares options and performance share rights granted after 7 November 2002 and vested after 1 January 2005

The fair value of options and performance share rights granted under the Funtastic Executive Share Option Plan and Funtastic Performance Share Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options and performance share rights granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options or performance share rights, the balance of the share-based payments reserve relating to those options is transferred to share capital.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

(vi) Profit Sharing And Bonus Plans

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(vii) Employee Benefit On-costs

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs, when the employee benefits to which they relate are recognised as liabilities.

### (q) Acquisitions of Assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(s)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity’s incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

### (r) Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

### (s) Intangibles

Intangible assets acquired in a business combination.

All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

## Notes to and Forming Part of the Financial Statements 31 December 2005

### Note 1. Summary of Significant Accounting Policies (cont.)

#### (t) Financial Assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost.

Loans and receivables are included at cost in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

#### (u) Derivatives

From 1 January 2004 to 31 December 2004

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 January 2005. The Group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 31 December 2004.

Adjustments on transition date: 1 January 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 January 2005) changes in the carrying amounts of derivatives are taken to retained earnings or reserves, depending on whether the criteria for hedge accounting are satisfied at the transition date.

From 1 January 2005

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Effect of changing the accounting policies for financial instrument

The effect of the change in accounting policies for financial instruments on the balance sheet as at 1 January 2005 for the group and company as detailed in note 27 is as follows;

- Increase in other current financial assets – interest rate hedge $9,335
- Increase in other current financial liabilities – cash flow hedges $1,146,641
- Increase in deferred tax asset $341,192
- Reduction in equity – hedging reserve $796,114

#### (v) Earnings per Share

(i) Basic Earnings per Share
Basic earnings per share is determined by dividing the operating profit after income tax and preference share dividends attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted Earnings per Share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial year.

#### (w) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Funtastic Limited ('Company') as at 31 December 2005 and the results of all controlled entities for the year then ended. Funtastic Limited and its controlled entities together are referred to in this financial report as the consolidated entity.
The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated income statement, balance sheet and statement of changes in equity, respectively.

## Note 2. Revenue

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Revenue from Operating Activities | | | | |
| Sales of goods | | | | |
| Gross | 386,419,113 | 341,887,178 | 302,839,250 | 298,206,994 |
| Less settlement discounts | (8,475,680) | (8,002,071) | (7,441,533) | (8,002,071) |
| Less rebates | (32,288,344) | (22,570,424) | (28,005,501) | (22,570,358) |
| | 345,655,089 | 311,314,683 | 267,392,216 | 267,634,565 |
| Revenue from Outside the Operating Activities | | | | |
| Interest | 209,269 | 306,930 | 163,396 | 293,237 |
| Commission | 1,519,939 | 1,957,131 | 642,654 | 1,957,131 |
| Other | 772,699 | 364,623 | 482,450 | 187,846 |
| Management fee | - | - | 8,168,376 | 7,604,465 |
| | 2,501,908 | 2,628,684 | 9,456,877 | 10,042,679 |
| **Revenue from Ordinary Activities** | **348,156,996** | **313,943,367** | **276,849,093** | **277,677,244** |

## Note 3. Expenses

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2005 | 2004 | 2004 | 2003 |
| | $ | $ | $ | $ |
| Profit before income tax includes the following specific expenses | | | | |
| Borrowing costs | | | | |
| Interest and finance charges paid or payable | 3,827,340 | 2,459,346 | 2,187,837 | 2,457,547 |
| Inventory | | | | |
| Write-down of inventory to net realisable value | 805,547 | - | 805,547 | - |
| Depreciation | 1,571,688 | 1,209,776 | 1,364,914 | 1,103,200 |
| Amortisation | | | | |
| Leasehold improvements | 85,993 | 89,344 | 79,379 | 89,344 |
| Non-current assets | 447,700 | - | - | - |
| | 533,693 | 89,344 | 79,379 | 89,344 |
| Rental expenses relating to operating leases | 3,505,660 | 2,948,358 | 3,137,123 | 2,948,358 |
| Share-based payments – distribution agreements | 85,541 | 1,292,956 | 85,541 | 1,292,956 |
| Employee benefit expense | | | | |
| Post employment benefits: | | | | |
| Defined contribution plans | 2,131,908 | 1,874,815 | 1,935,966 | 1,874,815 |
| Share-based payments | | | | |
| Equity settled share-based payments | 418,912 | 230,680 | 418,912 | 230,680 |
| Other employee benefits | 29,566,582 | 26,939,785 | 26,827,767 | 26,939,786 |
| | 32,117,402 | 29,045,280 | 29,182,645 | 29,045,281 |

## Notes to and Forming Part of the Financial Statements 31 December 2005

## Note 4. Income Tax

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| (a) Income tax expense | | | | |
| Current tax | 8,973,631 | 6,888,381 | 6,812,824 | 6,888,381 |
| Deferred tax | 646,402 | 533,432 | 853,294 | 533,432 |
| | **9,620,033** | **7421,813** | **7,666,118** | **7,421,813** |
| (b) Income tax recognised in profit or loss | | | | |
| The aggregate amount of income tax attributable to the financial year differs from the amount calculated on the operating profit. The differences are reconciled as follows: | | | | |
| **Operating profit before income tax expense** | **31,231,559** | **23,370,335** | **26,007,784** | **22,663,120** |
| Tax at the Australian tax rate of 30% (2004 30%) | 9,369,467 | 7,011,100 | 7,802,335 | 6,798,936 |
| Tax effect of temporary differences: | | | | |
| Share based payments | 151,336 | 457,090 | 151,336 | 457,090 |
| Difference in overseas tax rates | 89,195 | - | - | - |
| Other temporary differences | 10,035 | (46,377) | (287,553) | 165,787 |
| **Income Tax Expense** | **9,620,033** | **7,421,813** | **7,666,118** | **7,421,813** |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

| | Consolidated 2005 $ | Consolidated 2004 $ | Company 2005 $ | Company 2004 $ |
|---|---|---|---|---|
| (c) Amounts recognised directly in equity | | | | |
| Deferred Tax: | | | | |
| Financial instruments treated as cash flow hedges | 126,080 | - | 126,080 | - |

## Note 5. Dividends

| | Company | |
|---|---|---|
| | 2005 | 2004 |
| | $ | $ |
| Ordinary fully franked dividend paid | 11,373,026 | 10,454,515 |
| Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the year ended 31 December 2005 and 2004 were as follows: | | |
| Paid in cash | 10,409,449 | 7,722,445 |
| Satisfied by issue of shares | 963,577 | 2,732,070 |
| | **11,373,026** | **10,454,515** |
| **Dividend not Recognised at Year End** | | |
| In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 6.5 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 6 April 2006 out of retained profits at 31 December 2005, but not recognised as a liability at the year end. | 8,263,034 | 6,213,930 |

## Note 5. Dividends (cont.)

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Franking credits available for the subsequent financial year | 28,209,584 | 17,367,799 | 19,515,871 | 17,367,799 |

The above amount represents the balances of the franking account as at the end of the financial year, adjusted for:

(i) franking credits that will arise from the payment of income tax payable as at the end of the year;

(ii) franking debits that will arise from the payment of dividends proposed as at the end of the year; and

(iii) franking credits that may be prevented from being distributed in the subsequent financial year.

The impact on the franking account of the dividend declared by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $3,541,300 (2004 $2,663,113).

## Note 6. Current Assets - Cash Assets

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Cash on hand | 43,772 | 106,508 | 40,527 | 106,508 |
| Cash at bank | 15,069,361 | 18,108,245 | 8,983,025 | 18,108,245 |
| | **15,113,133** | **18,214,753** | **9,023,552** | **18,214,753** |

## Note 7. Current Assets - Receivables

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Trade debtors | 57,395,308 | 42,423,355 | 39,181,681 | 39,159,261 |
| Amount owing from Director related entities | 2,776,400 | 1,843,677 | 2,776,401 | 1,843,677 |
| Provision for doubtful debts, credit notes and settlement discounts | (2,480,646) | (1,992,670) | (1,660,706) | (1,992,670) |
| | **57,691,062** | **42,274,362** | **40,297,376** | **39,010,268** |
| Other debtors | 377,276 | 191,788 | 340,441 | 191,788 |
| | **58,068,338** | **42,466,150** | **40,637,817** | **39,202,05** |

## Note 8. Current Assets - Inventories

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Finished goods - at cost | 44,038,041 | 40,748,954 | 35,935,138 | 40,745,807 |
| Finished goods – at net realisable value | 2,871,992 | - | 2,871,992 | - |
| | **46,910,033** | **40,748,954** | **38,807,130** | **40,745,807** |
| Stock in transit | 5,150,098 | 6,948,905 | 5,150,098 | 6,948,905 |
| | **52,060,131** | **47,697,859** | **43,957,228** | **47,694,712** |

## Notes to and Forming Part of the Financial Statements 31 December 2005

### Note 9. Current Assets - Other

| | Consolidated 2005 $ | Consolidated 2004 $ | Company 2005 $ | Company 2004 $ |
|---|---|---|---|---|
| Pre-payments | 7,590,341 | 5,551,517 | 6,612,476 | 5,551,517 |

### Note 10. Other Current Financial Assets

| | Note | Consolidated 2005 $ | Consolidated 2004 $ | Company 2005 $ | Company 2004 $ |
|---|---|---|---|---|---|
| Cash flow hedges | 27 | 240,849 | - | 240,849 | - |
| Interest bearing loans – subsidiaries | | - | - | 22,322,664 | 50,951 |
| | | **240,849** | **-** | **22,563,513** | **50,951** |

### Note 11. Non-Current Assets - Property, Plant and Equipment

| | Consolidated 2005 $ | Consolidated 2004 $ | Company 2005 $ | Company 2004 $ |
|---|---|---|---|---|
| Plant and equipment - at cost | 15,409,951 | 10,809,724 | 12,291,828 | 9,581,795 |
| Less: accumulated depreciation | (8,141,461) | (5,567,257) | (5,984,554) | (4,723,422) |
| | **7,268,490** | **5,242,467** | **6,307,274** | **4,858,373** |
| Leasehold improvements | 1,546,851 | 1,411,579 | 1,134,301 | 1,119,532 |
| Less: accumulated amortisation | (412,394) | (318,061) | (370,278) | (290,586) |
| | **1,134,457** | **1,093,518** | **764,023** | **828,946** |
| | **8,402,947** | **6,335,985** | **7,071,297** | **5,687,319** |

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

| Consolidated | Plant and Equipment $ | Leasehold Improvements $ | Total $ |
|---|---|---|---|
| Carrying amount at 1 January 2005 | 5,242,468 | 1,093,517 | 6,335,985 |
| Additions | 4,021,134 | 135,273 | 4,156,407 |
| Disposals (net) | (325,723) | - | (325,723) |
| Depreciation/amortisation expenses (Note 3) | (1,669,390) | (94,332) | (1,763,722) |
| **Carrying amount at 31 December 2005** | **7,268,489** | **1,134,458** | **8,402,947** |

| Company | Plant and Equipment $ | Leasehold Improvements $ | Total $ |
|---|---|---|---|
| Carrying amount at 1 January 2005 | 4,858,374 | 828,945 | 5,687,319 |
| Additions | 2,921,598 | 14,770 | 2,936,368 |
| Disposals (net) | (102,394) | - | (102,394) |
| Depreciation/amortisation expenses (Note 3) | (1,370,304) | (79,692) | (1,449,996) |
| **Carrying Amount at 31 December 2005** | **6,307,274** | **764,023** | **7,071,297** |

## Note 12. Non-Current Assets - Investments

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | Note | $ | $ | $ | $ |
| Investment in controlled entities | 32 | - | - | 55,639,977 | 30,801,229 |

## Note 13. Non-Current Assets - Intangibles

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Licenses, distribution agreements and supplier relationships | 3,142,100 | - | - | - |
| Less: Accumulated amortisation | (447,700) | - | - | - |
| | **2,694,400** | - | - | - |
| Goodwill relating to business acquisitions | 70,243,694 | 40,972,436 | - | - |
| Less: Accumulated amortisation | (2,018,090) | (2,018,090) | (525,526) | (525,526) |
| | **68,225,604** | **38,954,346** | **20,030,826** | **20,030,826** |
| | **70,920,004** | **38,954,346** | **20,030,826** | **20,030,826** |

### (a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs). The carrying amount of goodwill allocated to CGUs is as follows;

| Cash-generating unit | 2005 $ | 2004 $ |
|---|---|---|
| Toys | 29,882,866 | 17,064,306 |
| Nursery | 2,838,528 | 2,838,528 |
| Apparel | 19,051,512 | 19,051,512 |
| Planet Fun - New Zealand | 16,452,697 | - |
| **Total** | **68,225,603** | **38,954,346** |

**Toys**

The recoverable amount of the Toys operations as determined is based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five year period, and a discount rate of 10.4% per annum. Cash flows beyond that five year period have been extrapolated using a steady 0-2.5% per annum growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the Toy operations operate.

The key assumptions used in the value in use calculations for the Toys operations are as follows;

Sales Growth Rate 2.5%, Earnings contribution Growth Rate 2.5%, Discount Rate 10.4%

**Nursery**

The recoverable amount of the Nursery operations as determined is based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 10.4% per annum. Cash flows beyond that five year period have been extrapolated using a steady 0-2.5% per annum growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the Nursery operations operate.

The key assumptions used in the value in use calculations for the Nursery operations are as follows; Sales Growth Rate 2.5%, Earnings contribution Growth Rate 2.5%, Discount Rate 10.4%

**Apparel**

The recoverable amount of the Apparel operations as determined is based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 10.4% per annum. Cash flows beyond that five year period have been extrapolated using a steady 0-1.5% per annum growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the Apparel operations operate.

The key assumptions used in the value in use calculations for the apparel operations are as follows;

Sales Growth Rate 0-1.5%, Earnings contribution Growth Rate 0-1.5%, Discount Rate 10.4%

**New Zealand**

The recoverable amount of the Planet Fun – New Zealand operations as determined is based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five year period, and a discount rate of 11.4% per annum. Cash flows beyond that five year period have been extrapolated using a steady 0-2.5% per annum growth rate. This growth rate does not exceed the long-term average growth rate for the market in which the Planet Fun operations operate.

The key assumptions used in the value in use calculations for the Planet Fun operations are as follows;

Sales Growth Rate 2.5%, Earnings contribution Growth Rate 2.5%, Discount Rate 11.4%

### (b) Impairment Charge

The recoverable amount for each separately identifiable CGU exceeds the carrying amount, therefore there is no impairment charge applicable for the year ended 31 December 2005.

## Notes to and Forming Part of the Financial Statements 31 December 2005

### Note 14. Non-Current Assets - Deferred Tax Assets

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Future income tax benefit | 2,262,798 | 1,973,248 | 1,843,170 | 1,973,248 |

### Note 15. Current Liabilities - Payables

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Trade and other creditors | 15,966,255 | 21,581,561 | 13,435,535 | 19,758,514 |

### Note 16. Current Liabilities - Interest Bearing Liabilities – Secured

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | Note | $ | $ | $ | $ |
| Hire purchase liabilities | 30 | 415,987 | 110,765 | 91,429 | 110,765 |
| Less: unexpired hire purchase charges | | (31,125) | (15,009) | (7,264) | (15,009) |
| | | 384,862 | 95,756 | 84,165 | 95,756 |

Hire purchase liabilities are secured as rights to the assets revert to the hire purchase Company in the event of default

### Note 17. Current Liabilities - Current Tax Liabilities

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Provision for income tax | 3,655,393 | 299,729 | 1,583,991 | 299,729 |

### Note 18. Current Liabilities - Other

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Accrued expenses | 20,978,592 | 13,207,667 | 16,761,737 | 12,978,421 |

### Note 19. Other Current Financial Liabilities

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | Note | $ | $ | $ | $ |
| Interest rate hedge | 27 | 661,116 | - | - | 661,116 |

### Note 20. Non-Current Liabilities - Payables

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Loans from related parties | - | - | 14,720,434 | 14,639,099 |

## Note 21. Non-Current Liabilities - Interest Bearing Liabilities - Secured

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | Note | $ | $ | $ | $ |
| Bill finance | | 50,000,000 | 25,942,450 | 50,000,000 | 25,942,450 |
| Hire purchase liabilities | 30 | 280,635 | 154,773 | 63,345 | 154,773 |
| Less unexpired hire purchase charges | | (18,095) | (8,668) | (1,405) | (8,668) |
| Net non-current hire purchase liabilities | | 262,540 | 146,105 | 61,940 | 146,105 |
| **Net non-current interest bearing liabilities** | | **50,262,540** | **26,088,555** | **50,061,940** | **26,088,555** |

### Security for Borrowings

The bill finance accounts are secured by a first ranking registered mortgage debenture over all assets and undertakings of the Company.

Hire purchase liabilities are secured as rights to the assets revert to the hire purchase Company in the event of default.

### Financing Arrangements

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Unrestricted access was available at balance date to the following lines of credit | | | | |
| **Trade Finance** | | | | |
| **Total Facilities** | | | | |
| National Debtor Finance Facility | 31,000,000 | 20,000,000 | 25,000,000 | 20,000,000 |
| Trade Refinance Facility | 45,000,000 | 35,000,000 | 45,000,000 | 35,000,000 |
| | **76,000,000** | **55,000,000** | **70,000,000** | **55,000,000** |
| **Used at Balance Date** | | | | |
| National Debtor Finance Facility | - | - | - | - |
| Trade Refinance Facility | - | - | - | - |
| | - | - | - | - |
| **Unused at Balance Date** | | | | |
| National Debtor Finance Facility | 31,000,000 | 20,000,000 | 25,000,000 | 20,000,000 |
| Trade Refinance Facility | 45,000,000 | 35,000,000 | 45,000,000 | 35,000,000 |
| | **76,000,000** | **55,000,000** | **70,000,000** | **55,000,000** |
| **Commercial Bill Facilities** | | | | |
| Total facilities | 56,367,658 | 25,942,450 | 54,367,658 | 25,942,450 |
| Used at balance date | 50,000,000 | 25,942,450 | 50,000,000 | 25,942,450 |
| **Unused at balance date** | **6,367,658** | - | **4,367,658** | - |
| **Documentary Letter of Credit Facilities** | | | | |
| Total facilities | 56,368,286 | 35,000,000 | 45,000,000 | 35,000,000 |
| Used at balance date | 14,728,943 | 16,560,342 | 12,968,499 | 16,560,342 |
| **Unused at balance date** | **41,639,343** | **18,439,658** | **32,031,501** | **18,439,658** |
| **Lease Purchase** | | | | |
| Total facilities | 500,000 | 1,000,000 | 500,000 | 1,000,000 |
| Used at balance date | 154,770 | 314,046 | 154,770 | 314,046 |
| **Unused at balance date** | **345,230** | **685,954** | **345,230** | **685,954** |
| **Bank Guarantee Facilities** | | | | |
| Total facilities | 1,560,000 | 600,000 | 1,500,000 | 600,000 |
| Used at balance date | 708,012 | 414,000 | 648,012 | 414,000 |
| **Unused at balance date** | **851,988** | **186,000** | **851,988** | **186,000** |

## Notes to and Forming Part of the Financial Statements 31 December 2005

### Note 21. Non-Current Liabilities - Interest Bearing Liabilities - Secured (cont.)

Financing Arrangement Company

$50,000,000 of the Commercial Bill facilities expires 31 Dec 2010

The remaining facilities are subject to annual review on or by 31 May 2006.

The current interest rates are 7.85% on the National Debtor Finance Facility, 7.85% on the Trade Refinance Facility and 6.71% on the Commercial Bill Facility. (2004 6.11%, 6.51% and 6.3% respectively)

The facilities are secured by a first ranking registered mortgage debenture over all assets and undertakings of the Company.

Financing Arrangements - Subsidiaries

Dorcy Irwin Pacific Pty Limited

$2,000,000 of the Commercial Bill facilities expired 31 Jan 2006.

$6,000,000 Debtor Finance facility, $9,500,000 Letter of Credit facilities and $60,000 Bank Guarantee facilities expire on 31 Mar 2006.

The current interest rates are 7.85% on the National Debtor Finance Facility.

The facilities are secured by a first ranking registered mortgage debenture over all assets and undertakings of the subsidiary and guarantee and indemnity from the Company.

Planet Fun Pty Limited

NZ$2,000,000 Letter of Credit facility expires on 31 March 2006 secured by a first ranking registered mortgage debenture over all assets and undertakings of the Company.

### Note 22. Non-Current Liabilities - Provisions

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Provision for employee benefits | 939,318 | 865,361 | 734,900 | 865,361 |

### Note 23. Non-Current Liabilities - Deferred Tax Liabilities

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Provision for deferred income tax | 1,030,574 | - | 222,255 | - |

### Note 24. Contributed Equity

| | 2005 | 2004 | 2005 | 2004 |
|---|---|---|---|---|
| | Shares | Shares | $ | $ |
| (a) Share Capital | | | | |
| Ordinary shares fully paid | 127,123,602 | 124,278,603 | 76,411,289 | 71,483,309 |

(b) Movements in Ordinary Share Capital

| Date | Details | Notes | Number of Shares | Issue Price | $ |
|---|---|---|---|---|---|
| 1 Jan 04 | Opening Balance | | 120,484,549 | | 66,589,809 |
| 21 Jan 04 | Exercise of ordinary options - Jakks | | 500,000 | 0.65 | 325,000 |
| 21 Jan 04 | Prior year adjustment | | | | 31 |
| 18 Feb 04 | Toy & Hobby issue ex sale agreement | | 195,462 | 2.19 | 429,000 |
| 12 Mar 04 | Exercise of royalty options | | 765,000 | 0.50 | 382,500 |
| 13 Apr 04 | Dividend reinvestment plan | | 773,305 | 2.06 | 1,590,195 |
| 1 Nov 04 | Dividend reinvestment plan | | 491,537 | 2.32 | 1,141,875 |
| 29 Apr 04 | Refund on capital raising costs | | | | 65,000 |
| 30 Apr 04 | Prior year adjustment | | | | 8,750 |
| 1 Sep 04 | Exercise of ordinary options – XConcepts | | 100,000 | 0.84 | 84,000 |
| 2 Mar 03 to 1 Sep 04 | Exercise of ESOP options | | 565,000 | 0.50 | 282,500 |
| 8 Jul 04 | Exercise of ESOP options | | 50,000 | 0.62 | 31,000 |
| 8 Jul 04 to 14 Dec 04 | Exercise of ESOP options | | 250,000 | 0.88 | 220,800 |
| 16 Mar 04 to 1 Sep 04 | Exercise of ESOP options | | 77,500 | 1.10 | 85,250 |
| 16 Mar 04 | Exercise of ESOP options | | 25,000 | 1.52 | 38,000 |
| 8 Nov 04 | Exercise of ESOP options | | 1,250 | 1.89 | 2,363 |
| 1 Jan 04 to 31 Dec 04 | Transfer from equity-settled reserve | | | | 207,236 |
| 31 Dec 2004 | Closing Balance | | 124,278,603 | | 71,483,309 |

## Note 24. Contributed Equity (cont.)

(b) Movements in Ordinary Share Capital (cont.)

| Date | Details | Notes | Number of Shares | Issue Price | $ |
|---|---|---|---|---|---|
| **31 Dec 2004** | **Closing Balance** | | **124,278,603** | | **71,483,309** |
| 4 Jan-05 | Planet Fun issue ex sale agreement | (d) | 1,537,217 | $2.14 | 3,293,359 |
| 1 Nov 04 | Dividend reinvestment plan | (c) | 515,282 | $1.87 | 963,577 |
| 17 Jun 05 to 30 Dec 05 | Exercise of ordinary options – Xconcepts | (e) | 100,000 | $0.84 | 84,000 |
| 11 Jul 05 to 30 Aug 05 | Exercise of ESOP options | (e) | 30,000 | $0.50 | 15,000 |
| 26 May 05 to 3 Oct 05 | Exercise of ESOP options | (e) | 280,000 | $0.62 | 173,600 |
| 8 Feb 05 to 5 Dec 05 | Exercise of ESOP options | (e) | 105,000 | $0.88 | 92,736 |
| 19 Aug 05 | Exercise of ESOP options | (e) | 250,000 | $0.92 | 230,000 |
| 18 Jul 05 to 10 Nov 05 | Exercise of ESOP options | (e) | 17,500 | $1.10 | 19,250 |
| 14 Jun 05 | Exercise of ESOP options | (e) | 10,000 | $1.52 | 15,200 |
| 1 Jan 05 to 31 Dec 05 | Transfer from equity-settled reserve | | | | 41,258 |
| **31 Dec 2005** | **Closing balance** | | **127,123,602** | | **76,411,289** |

(c) Dividend Reinvestment Plan

The Company has a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than being paid in cash. The dividend reinvestment plan was suspended on 15th August 2005.

(d) Share Issue on Acquisition of Business Assets

During the year, on 4 January 2005, 1,537,217 shares were issued at an issue price of $2.14 as part payment for the business of Planet Fun Limited (details of which are in Note 33).

(e) Options

Employee Share Options

Information relating to the Funtastic Limited Executive Share Option Plan, including details of shares issued under the scheme, are set out in Note 38.

Ordinary Options

XConcepts

On 28 October 2002, Funtastic issued 200,000 Ordinary Options in consideration for the Company entering into a distribution agreement with XConcepts. The agreement is in respect of the exclusive distribution of Teck Deck toys and accessories in Australia.

The options vested on 31 December 2002, 31 December 2003, 31 December 2004 and 31 December 2005 and were fully exercised, at an exercise price of $0.84 before the expiry date of 3 January 2006.

MGA Entertainment (HK) Limited

On 19 January 2004, Funtastic issued 1,500,000 Ordinary Option pursuant to a distribution agreement with MGA Entertainment (HK) Limited. The agreement is in respect of the exclusive distribution of Bratz toys, electronics, sporting goods and related products for the Australia and New Zealand region.

The options vested on 31 December 2004 and may be exercised, at an exercise price of $1.50 at any time up until the expiry date of 19 January 2014.

Toybiz Worldwide Limited – Hong Kong

On 5 April 2004, Funtastic issued 1,000,000 Ordinary Option pursuant to a distribution agreement with Toybiz Worldwide Limited. The agreement is in respect of the exclusive distribution of toys and other products for the Australia and New Zealand region.

50% of options vested on 15 February 2005 and 50% vest on 15 February 2006 and may be exercised, at an exercise price of $2.14, at any time from the vesting date up until the expiry date of 15 February 2006. These options subsequently lapsed on 15 February 2006.

| Grant Date | Type | Expiry Date | Exercise Price | Balance at Start of Year Number | Issued During the Year Number | Exercised During the Year Number | Balance as at End of Year Number |
|---|---|---|---|---|---|---|---|
| Consolidated and Company – 2005 | | | | | | | |
| 28 Oct 2002 | Ordinary options – XConcepts | 3 Jan 2006 | $0.84 | 100,000 | - | 100,000 | - |
| 19 Jan 2004 | Ordinary options – MGA | 19 Jan 2014 | $1.50 | 1,500,000 | - | - | 1,500,000 |
| 5 Apr 2004 | Ordinary options - Toybiz | 15 Feb 2006 | $2.14 | 1,000,000 | - | - | 1,000,000 |
| | | | | **2,600,000** | - | **100,000** | **2,500,000** |
| Consolidated and Company – 2004 | | | | | | | |
| 14 Sep 2000 | Royalty options | 12 Sep 2005 | $0.54 | 765,000 | - | 765,000 | - |
| 8 Feb 2002 | Ordinary options – JAKKS | 2 Jan 2004 | $0.65 | 500,000 | - | 500,000 | - |
| 28 Oct 2002 | Ordinary options – XConcepts | 3 Jan 2006 | $0.84 | 200,000 | - | 100,000 | 100,000 |
| 19 Jan 2004 | Ordinary options – MGA | 19 Jan 2014 | $1.50 | - | 1,500,000 | - | 1,500,000 |
| 5 Apr 2004 | Ordinary options - Toybiz | 15 Feb 2006 | $2.14 | - | 1,000,000 | - | 1,000,000 |
| | | | | **1,465,000** | **2,500,000** | **1,365,000** | **2,600,000** |

## Notes to and Forming Part of the Financial Statements 31 December 2005

### Note 24. Contributed Equity (cont.)

(f) Options

Options hold no dividend or voting rights

(g) Performance Share Rights

Information relating to the Funtastic Limited Performance Share Plan, including details of performance rights issued under the scheme, are set out in Note 38.

(h) Ordinary Shares

On a show of hands every member present at the meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

### Note 25. Reserves

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Currency Translation Reserves | 85,624 | - | - | - |
| Equity-settled benefits | 2,360,444 | 1,897,250 | 2,360,445 | 1,897,250 |
| Hedging | (294,187) | - | (294,187) | - |
| | **2,151,881** | **1,897,250** | **2,066,258** | **1,897,250** |

| Currency Translation Reserve | | | | |
|---|---|---|---|---|
| Balance at the beginning of the year | - | - | - | - |
| Translation of foreign operations | 85,624 | - | - | - |
| **Balance at the End of the Year** | **85,624** | - | - | - |

Exchange differences relating to the translation from NZ$ and HKD, being the functional currencies of the consolidated entity's foreign controlled entities in New Zealand and Hong Kong, into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

| Equity settled benefit reserve | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Balance at the beginning of the year | 1,897,250 | 580,850 | 1,897,250 | 580,850 |
| Share based payment | 504,453 | 1,523,636 | 504,453 | (1,523,636) |
| Transfer to Share capital | (41,259) | (207,236) | (41,258) | (207,236) |
| **Balance at the End of the Year** | **2,360,444** | **1,897,250** | **2,360,445** | **1,897,250** |

The equity-settled benefit reserve arises on the grant of share options and performance share rights to Executives and other beneficiaries under the Executive share option, and performance share rights plans. Amounts are transferred out of the reserve and into issued capital when the options or rights are exercised. Further information about share-based payments is made in notes to the financial statements.

| Hedging reserve | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Balance at the beginning of the year | - | - | - | - |
| Adjustment on adoption of accounting policies specified by AASB 132 and AASB 139 (refer note 1 (u)) | **(796,114)** | - | **(796,114)** | - |
| Gain/(Loss) recognised | | | | |
| Forward exchange contracts | 1,387,490 | - | 1,387,490 | - |
| Interest rate swaps | (670,451) | - | (670,451) | - |
| Deferred tax asset arising on hedges | (215,112) | - | (215,112) | - |
| **Balance at the End of the Year** | **(294,187)** | - | **(294,187)** | - |

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(u). Amounts are recognised in profit and loss when the hedged transaction affects profit and loss.

## Note 26. Retained Profits

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Opening balance | 25,674,670 | 20,180,663 | 1,100,617 | 16,313,825 |
| Net profit after tax for the year | 21,611,526 | 15,948,522 | 18,341,666 | 15,241,307 |
| Dividends paid | (11,373,026) | (10,454,515) | (11,373,027) | (10,454,515) |
| | **35,913,170** | **25,674,670** | **28,069,256** | **21,100,617** |

## Note 27. Financial Instruments

### Foreign currency risk management

The group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward exchange and forward currency protection contracts.

### Forward Exchange Contracts – cash flow hedges

The Group enters into forward exchange contracts to buy and sell specified amounts of various foreign currencies in the future at a pre-determined exchange rate to hedge its foreign currency assets and liabilities. The settlement dates, dollar amounts to be received/(paid) and contractual rates of the Group's outstanding contracts at balance date are:

| | Average Exchange Rate | | Sell Australian dollars | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Buy US dollars | $ | $ | $ | $ |
| Maturity 0-6 months | 0.7394 | 0.7340 | 22,703,141 | 17,179,357 |

| | Average Exchange Rate | | Sell Australian dollars | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Buy NZ dollars | $ | $ | $ | $ |
| Maturity 0-6 months | n/a | 1.0742 | - | 10,123,841 |

| | Average Exchange Rate | | Sell NZ $ | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Buy US dollars | $ | $ | $ | $ |
| Maturity 0-6 months | 0.6685 | 0.6967 | 4,188,583 | 287,069 |
| Maturity 6-9 months | 0.6634 | n/a | 1,205,909 | - |
| **Total** | **0.6673** | **0.6967** | **5,394,492** | **287,069** |

### Forward Exchange Currency Protection Contracts

The Company enters into forward exchange currency protection contracts to buy and sell specified amounts of various foreign currencies in the future at a rate guaranteed to be at least a set minimum rate.

The currency protection contracts provide protection against adverse exchange rate movement, a guaranteed minimum rate and the potential to benefit from favourable exchange rate movements.

The settlement dates, dollar amounts to be received/(paid) and contractual rates of the Company's outstanding contracts at balance date are:

| | Average Exchange Rate at 31 Dec Spot Rate | | Average Protection Margin | | Minimum Average Exchange Rate | | Sell Australian $ (at minimum rate) | |
|---|---|---|---|---|---|---|---|---|
| Buy US Dollars | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Maturity 0-6 months | n/a | 0.7553 | n/a | 0.0211 | n/a | 0.7157 | - | 12,854,936 |

The portion of the gain or loss on the forward exchange and forward exchange currency protection contracts that are determined to be an effective hedges are recognised directly in equity. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount directly in equity.

At balance date these contracts were assets of the Group and Company of $240,849 (2004 liability $1,146,641).

In the year ended 31 December 2005 there was:

- on the date of transition to AASB 132 and AASB 139 on 1 January 2005 the liabilities were initially brought to account in other current financial liabilities at fair value of $1,146,641 An equivalent amount was reclassified to equity, net of tax, and
- a gain on hedging instruments of $1,287,490 have been brought to account in other current financial assets and liabilities. An equivalent amount was transferred to equity, net of tax.

## Notes to and Forming Part of the Financial Statements 31 December 2005

### Note 27. Financial Instruments (cont.)

Interest Rate Risk Management

The consolidated entity is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts.

Interest Rate Swap Contracts

Bank loans of the consolidated entity currently bear an average variable interest rate of 6.24%. It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the consolidated entity has entered into an interest rate swap contract under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The contract is settled on a net basis and the net amount receivable or payable at the reporting date is included in other debtors or other creditors.

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

Swaps currently in place cover 100% (2004 44%) of the long-term loan principal outstanding and are timed to expire as the end of the facility. The fixed interest rate is 6.7% (2004 6.69%) and the variable rate is the bank bill rate of the term of the underlying bill which at balance date was 6.24% (2003 6.24%).

As at 31 December 2005, the notional principal amounts and the periods of expiry of the interest rate swap contract was as follows;

| | 2005<br>$ | 2004<br>$ |
|---|---|---|
| Less than 1 year | - | - |
| 1 - 3 years | - | 11,500,000 |
| 4 - 5 years | 50,000,000 | - |
| | **50,000,000** | **11,500,000** |

The portion of the gain or loss on the interest rate swap contracts that are determined to be an effective hedges are recognised directly in equity. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount directly in equity.

At balance date these contracts were liabilities of the Group and Company of $661,116 (2004 asset $9,335).

In the year ended 31 December 2005 there was:

- on the date of transition to AASB 132 and AASB 139 on 1 January 2005 the asset was initially brought to account in other current financial liabilities at fair value of $9,335 An equivalent amount was reclassified to equity, net of tax, and a loss on hedging instruments of $670,451 have been brought to account in other current financial assets and liabilities. An equivalent amount was transferred to equity, net of tax.

Interest Rate Risk Exposures

The consolidated entity's exposure to net interest rate risk and the average interest rate for each class of financial asset and financial liability is set out below.

| 2005 | Notes | Floating Interest Rate<br>$ | Fixed Interest 1 Year or Less<br>$ | Maturing in 1 - 5 Years<br>$ | Non-Interest Bearing<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|
| Financial Assets | | | | | | |
| Cash | 6 | 15,069,361 | - | - | 43,772 | 15,113,133 |
| Receivables | 7 | | - | - | 58,068,338 | 58,068,33 |
| | | **15,069,361** | - | - | **58,112,110** | **73,181,471** |
| Average interest rate | | | | | | |
| Financial Liabilities | | | | | | |
| Payables | 15 | - | - | - | 15,966,255 | 15,966,255 |
| Bill finance | 21 | - | - | 50,000,000 | - | 50,000,000 |
| Hire purchase liabilities | 16,21 | - | 384,862 | 262,540 | - | 647,402 |
| | | - | **384,862** | **50,262,540** | **15,966,255** | **66,613,657** |
| Average interest rate | | 4.5% | 7.4% | 6.7% | | |
| **Net Financial Assets** | | **15,069,361** | **(384,862)** | **(50,262,540)** | **42,145,855** | **6,567,814** |

| 2004 | Notes | Floating Interest Rate<br>$ | Fixed Interest 1 Year or Less<br>$ | Maturing in 1 - 5 Years<br>$ | Non-Interest Bearing<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|
| Financial Assets | | | | | | |
| Cash | 6 | 18,108,245 | - | - | 106,508 | 18,214,753 |
| Receivables | 7 | - | - | - | 42,466,150 | 42,466,150 |
| | | **18,108,245** | - | - | **42,572,658** | **60,680,903** |
| Average interest rate | | 4.5% | | | | |
| Financial Liabilities | | | | | | |
| Payables | 15 | - | - | - | 21,581,561 | 21,581,561 |
| Bill finance | 21 | 14,442,450 | - | 11,500,000 | - | 25,942,450 |
| Hire purchase liabilities | 16,21 | - | 95,756 | 146,105 | - | 241,861 |
| | | **14,442,450** | **95,756** | **11,646,105** | **21,581,561** | **47,765,872** |
| Average interest rate | | 6.3% | 6.7% | 6.8% | | |
| **Net Financial Assets** | | **3,665,795** | **(95,756)** | **(11,646,105)** | **20,991,097** | **12,915,031** |

## Note 27. Financial Instruments (cont.)

### Credit Risk Exposures

The credit risk on financial assets of the company which have been recognised on the balance sheet is generally the carrying amounts, net of any provisions for doubtful debts. The credit risk for the forward exchange contracts not recognised on the balance sheet is represented by the net market value of the contracts, as disclosed.

### Liquidity risk

The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

## Note 28. Key Management Personnel

This note is to be read in conjunction with the Remuneration Report, which is included in the Directors Report on pages 15 to 20.

### Details of compensation

Refer to page 15 of the Remuneration Report for details of the compensation of Non-executive Directors of Funtastic Limited for the 2005 financial year.

Details of the compensation of all Directors of Funtastic Limited for the 2004 financial year is set out in the following table:

| | Primary | | | Post-employment | | Share-based payments | |
|---|---|---|---|---|---|---|---|
| | Cash salary, fees and allowances | Cash Bonus | Non-monetary benefits | Superannuation | Termination benefits | Options | Total |
| Directors | $ | $ | $ | $ | $ | $ | $ |
| Non-executive | | | | | | | |
| Geoff Tomlinson | 128,440 | - | - | 11,560 | - | - | **140,000** |
| David Berry | 70,000 | - | - | - | - | - | **70,000** |
| Harry Boon | 21,217 | - | - | 1,667 | - | - | **22,884** |
| *(From 1/9/04 to 31/12/04)* | | | | | | | |
| Executive | | | | | | | |
| David Hendy | 387,988 | - | - | 83,543 | - | 57,083 | **528,614** |
| Moshe Meydan | 241,846 | 105,000 | - | 101,620 | - | - | **448,466** |
| Tony Oates (i) | 272,269 | - | 83,058 | 40,484 | - | - | **395,811** |
| Nir Pizmony (ii) (iii) | 361,326 | - | - | 64,039 | 270,492 | - | **695,857** |
| *(From 1/1/04 to 31/10/04)* | | | | | | | |
| **Total** | **1,483,086** | **105,000** | **83,058** | **302,913** | **270,492** | **57,083** | **2,301,632** |

(i) T Oates was appointed a Director on 1 September 2004. Before this appointment he was General Manager Sales and Marketing. Amounts shown include all Mr Oates' remuneration during the reporting period, whether as a Director or as General Manager Sales and Marketing. Amounts received in his position as a Director amounted to $153,847 made up of cash salary of $109,197 non-monetary benefits of $31,946 and superannuation of $12,703.

(ii) N Pizmony resigned as a Director on 27 July 2004 and remained an employee of the Company until 31 October 2004. Amounts received in his position as a Director amounted to $272,797 made up of cash salary of $241,355 and superannuation of $31,442.

(iii) Termination benefits paid to N Pizmony reflect annual leave and long service leave entitlements payable on resignation.

## Notes to and Forming Part of the Financial Statements 31 December 2005

## Note 28. Key Management Personnel (cont.)

### Specified Executives of the Consolidated Entity

Refer to page 17 of the Remuneration Report for details of the compensation of the Managing Director, other Executive Directors and specified Executives of the consolidated entity for the 2005 financial year.

Details of the compensation of each of the specified Executives of the consolidated entity for the 2004 financial year are set out in the following table:

| | Primary | | | Post-employment | | Share-based payments | |
|---|---|---|---|---|---|---|---|
| | Cash salary, fees and allowances | Cash Bonus | Non-monetary benefits | Superannuation | Termination benefits | Options | Total |
| Executives | $ | $ | $ | $ | $ | $ | $ |
| Ian Ashmore | 205,401 | 15,000 | - | 19,239 | - | 59,273 | 298,913 |
| Colin Caulfield | 250,279 | 30,000 | - | 28,206 | - | 116,247 | 424,732 |
| Tracey Leslie | 189,539 | 25,000 | 29,062 | 17,475 | - | 58,300 | 319,376 |
| Karl Nixon *(from 9/8/2004 to 31/12/2004)* | 82,521 | 5,000 | 259 | 7,450 | - | 31,708 | 126,938 |
| Robert Vasy | 120,311 | 30,000 | 103,425 | 24,253 | - | 39,767 | 317,756 |
| **Total** | **848,051** | **105,000** | **132,746** | **96,623** | **-** | **305,295** | **1,487,715** |

### Equity Instruments

Refer to the page 19 of the Remuneration Report for details of options granted as compensation to the Managing Director, Executive Directors and specified Executives.

### Share holdings

The numbers of shares in the Company held during the financial year by each Director of Funtastic Limited and each of the specified Executives of the consolidated entity, including their personally-related entities, are set out below.

| Name | Balance at the start of the year | Received during the year on the exercise of options | Shares purchased during the year | Shares sold during the year | Balance at the end of the year |
|---|---|---|---|---|---|
| **Non-executive Directors** | | | | | |
| Geoff Tomlinson | 1,063,776 | - | 28,444 | - | 1,092,220 |
| David Berry | 178,868 | - | 1,179 | - | 180,047 |
| Harry Boon | 20,000 | - | - | - | 20,000 |
| **Executive Directors** | | | | | |
| David Hendy | 6,539,650 | 250,000 | - | 1,000,000 | 5,789,650 |
| Tony Oates | 545,871 | - | - | - | 545,871 |
| Moshe Meydan | 7,946,479 | - | - | - | 7,946,479 |
| **Specified Executives** | | | | | |
| Colin Caulfield | 167,483 | 200,000 | 197 | 105,000 | 262,680 |
| Robert Vasy | | - | - | - | - |
| John Redenbach | - | - | 10,000 | - | 10,000 |
| Tracey Leslie | - | - | - | - | - |
| Ian Ashmore | - | - | - | - | - |
| Karl Nixon | 50,000 | - | - | - | 50,000 |

## Note 28. Key Management Personnel (cont.)

### Service Agreements

The Company has no service agreements with the Non-executive Directors. Refer to page 20 of the Remuneration Report for details of service agreements with the Managing Director, Executive Directors and specified Executives.

### Transactions with Key Management Personnel

Mr D Berry, a Director and Company secretary, is a partner of the accounting firm O'Keeffe Walton Berry, which provided Company secretarial services to Funtastic Limited during the year.

Mr D Hendy, a Director, is a Director and has an interest in Hendy Properties Pty Limited. Funtastic has a lease agreement to rent an office building 50% owned by Hendy Properties Pty Ltd. The lease agreement is based on normal terms and conditions and supported by independent valuation.

Mr D Hendy, is a Director and has an interest in Headstart International Pty Limited. During the year the Company has purchased products on normal commercial terms. At 31 December the amount payable was $1,931 (2004 $NIL).

Director Mr M Meydan has an interest in the following entities which either provided property on lease or acquired products from the Company during the financial year.

- Lucky Bay Pty Limited. Funtastic entered into a lease agreement to rent a warehouse and office building owned by this Company. The lease agreement is based on normal terms and conditions and supported by independent valuation.
- A.H. Meydan Pty Limited. Funtastic entered into a short-term lease agreement to rent a retail clearance centre owned by this Company. The lease agreement is based on normal terms and conditions.
- Ferristex Pty Limited and Vestito Pty Limited purchased clothing and apparel from Funtastic Limited. The purchases were on normal terms and conditions. At 31 December the amounts payable were $NIL (2004 $246,541) and $2,776,401 (2004 $1,597,136) respectively. Mr Meydan has provided a guarantee in favour of Funtastic in relation to any debts incurred by Vestito Pty Limited up to and including 31 December 2006.

Aggregate amounts of each of the above types of other transactions with Directors and Director related entities are as follows:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| **Company Secretarial Services** | **74,345** | **63,696** | **74,345** | **63,696** |
| **Rent of Office and Warehouse Buildings** | | | | |
| Lucky Bay Pty Limited | 793,090 | 771,993 | 793,090 | 771,993 |
| A.H. Meydan Pty Limited | 168,000 | 56,000 | 168,000 | 56,000 |
| Hendy Properties Pty Limited | 87,429 | 87,429 | 87,429 | 87,429 |
| | **1,048,519** | **915,422** | **1,048,519** | **915,422** |
| **Purchase of Products** | | | | |
| Headstart International Pty Limited | 215,432 | 99,610 | 215,432 | 99,610 |
| **Sale of Clothing and Apparel** | | | | |
| Ferristex Pty Limited | 96,770 | 1,872,859 | 96,770 | 1,872,859 |
| Vestito Pty Limited | 5,969,947 | 3,745,323 | 5,969,947 | 3,745,323 |
| | **6,066,717** | **5,618,182** | **6,066,717** | **5,618,182** |

## Note 29. Remuneration of Auditors

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| **Auditor of the Company** | | | | |
| Audit and review of the financial reports of the entity | 325,450 | 211,000 | 268,950 | 211,000 |
| Due diligence and acquisition review | 92,100 | 40,410 | 92,100 | 40,410 |
| Other services including assurance and taxation services | 20,680 | 43,410 | 20,680 | 43,410 |
| | **438,230** | **294,820** | **381,730** | **294,820** |
| **Related practice of the Company auditor** | | | | |
| Audit and review of the financial reports of the entity | 3,121 | - | - | - |

## Notes to and Forming Part of the Financial Statements 31 December 2005

## Note 30. Commitments for Expenditure

### Operating Lease Commitments

Commitments in relation to non-cancellable operating leases contracted for but not capitalised in the accounts are payable as follows:

| | Consolidated 2005 $ | Consolidated 2004 $ | Company 2005 $ | Company 2004 $ |
|---|---|---|---|---|
| Not later than one year | 3,427,224 | 3,080,326 | 3,167,781 | 3,080,326 |
| Later than two years but not later than five years | 7,038,744 | 6,844,460 | 6,988,062 | 6,844,460 |
| Later than five years | 1,035,000 | 3,311,523 | 1,035,000 | 3,311,523 |
| | **11,500,968** | **13,236,309** | **11,190,843** | **13,236,309** |

The operating leases are non-cancellable leases with respect to office premises.

### Hire Purchase Commitments

Commitments in relation to hire purchase liabilities are payable as follows:

| | Consolidated 2005 $ | Consolidated 2004 $ | Company 2005 $ | Company 2004 $ |
|---|---|---|---|---|
| Not later than one year | 416,486 | 110,765 | 91,428 | 110,765 |
| Later than one year but not later than five years | 280,092 | 154,773 | 63,345 | 154,773 |
| Minimum lease and hire purchase payments | 696,571 | 265,538 | 154,773 | 265,538 |
| Less future finance charges | (49,169) | (23,677) | (8,668) | (23,677) |
| **Total hire purchase liabilities** | **647,402** | **241,861** | **146,105** | **241,861** |

Representing:

| | Note | Consolidated 2005 $ | Consolidated 2004 $ | Company 2005 $ | Company 2004 $ |
|---|---|---|---|---|---|
| Current | 16 | 384,862 | 95,756 | 84,165 | 95,756 |
| Non current | 21 | 262,540 | 146,105 | 61,940 | 146,105 |
| | | **647,402** | **241,861** | **146,105** | **241,861** |

The weighted average interest rate in the hire purchase agreements is 7.6% (2004 – 6.8%).
The hire purchase agreements are non-cancellable with respect to motor vehicles and warehouse equipment.

### License guarantee commitments

Under the terms of various License Agreements the Company guarantees the minimum levels of royalty payments. The commitment in relation to these guarantees contracted for but not capitalised in the accounts are payable as follows:

| | Consolidated 2005 $ | Consolidated 2004 $ | Company 2005 $ | Company 2004 $ |
|---|---|---|---|---|
| Not later than one year | 3,609,142 | 3,267,282 | 3,609,142 | 3,267,282 |
| Later than one year but not later than two years | 1,736,354 | 2,468,554 | 1,736,354 | 2,468,554 |
| Later than two years but not later than five years | 1,226,750 | 1,585,654 | 1,226,750 | 1,585,654 |
| | **6,572,246** | **7,321,490** | **6,572,246** | **7,321,490** |

## Note 31. Reconciliation of Operating Profit after Income Tax to Net Cash Inflow from Operating Activities

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Operating profit after income tax | 21,611,526 | 15,948,522 | 18,341,666 | 15,241,307 |
| Amortisation | 447,700 | - | - | - |
| Depreciation | 1,657,681 | 1,299,119 | 1,444,292 | 1,192,543 |
| Share options expense | 504,453 | 1,523,636 | 504,453 | 1,523,636 |
| Write-down of inventory to net realisable value | 805,547 | - | 805,547 | - |
| (Profit) / Loss on sale of non-current assets | (1,200) | (2,836) | 17,761 | (3,653) |
| Decrease / (Increase) in trade and other debtors | 3,493,331 | 793,371 | (2,265,819) | 4,277,952 |
| (Increase) / Decrease in inventories | 4,571,025 | (9,202,499) | 2,784,951 | (9,274,134) |
| Decrease / (Increase) in deferred tax assets | (176,549) | 1,125,060 | (239,131) | 1,125,060 |
| (Increase) in prepayments | (1,300,255) | (2,654,579) | (1,060,959) | (2,654,579) |
| Increase / (Decrease) in trade creditors and accruals | (5,479,928) | 6,560,324 | (4,817,308) | 4,506,345 |
| (Decrease) / Increase in current tax liability | 2,295,122 | (1,541,546) | 1,908,446 | (1,461,286) |
| (Decrease) in employee provisions | (125,374) | (312,915) | (130,461) | (312,915) |
| (Decrease) / Increase in deferred tax liabilities | (86,169) | (9,817) | 150,000 | (9,817) |
| (Decrease) in doubtful debts provision | (411,488) | (1,401,605) | (331,964) | (1,401,605) |
| (Decrease) / Increase in provision for stock obsolescence | - | (134,084) | 156,987 | (134,084) |
| **Net Cash Inflow from Operating Activities** | **27,805,422** | **11,990,151** | **17,258,461** | **12,614,770** |

## Notes to and Forming Part of the Financial Statements 31 December 2005

## Note 32. Investments in Controlled Entities

| Name of Entity | Country of Incorporation | Equity Holding 2005 % | Equity Holding 2004 % |
|---|---|---|---|
| **Company** | | | |
| Funtastic Limited | Australia | | |
| **Subsidiaries** | | | |
| JNH Australia Pty Ltd | Australia | 100 | 100 |
| Fun International Ltd | Hong Kong | 100 | 100 |
| Funtastic International Limited | Hong Kong | 100 | - |
| Planet Fun Pty Limited | Australia | 100 | - |
| Dorcy Irwin Pacific Pty Limited | Australia | 100 | - |
| Dorcy Investments Pty Limited | Australia | 100 | - |
| Irwin Pacific Pty Limited | Australia | 100 | - |
| Dorcy NZ Pty Limited | New Zealand | 50 | - |

## Note 33. Acquisition of Businesses

### Planet Fun – New Zealand

On the 1st January 2005 the Group acquired the business and assets of Planet Fun Limited the leading distributor of toys and nursery products in New Zealand.

The acquired business contributed revenues of $23,682,576 and net profit after tax of $1,974,085 to the Group for the period from 1 January 2005 to 31 December 2005.

Planet Fun distributes to all of the major retailers in New Zealand.

| Purchase consideration | NZ$ | A$ |
|---|---|---|
| Cash to Vendor | 10,875,000 | 10,123,841 |
| Equity to Vendor | 3,625,000 | 3,293,359 |
| Amount refundable from Vendor | (453,558) | (418,176) |
| Present Value of earn-out consideration | 3,776,488 | 3,483,845 |
| Direct Costs relating to the acquisition | 347,367 | 320,301 |
| **Total Consideration** | **18,170,297** | **16,803,170** |

The equity to vendor was in the form of 1,537,217 ordinary shares in Funtastic issued to the vendor on the 4th January 2005 at a price per share of $2.14 being the 10 day volume weighted average price for the period immediately after signing of the purchase agreement.

The earn out of NZ$4.0 million is fully payable as the business achieved financial pre-determined profit targets for the period ended 31 December 2005.

## Note 33. Acquisition of Businesses (cont.)

Assets and Liabilities Acquired

The fair value of assets and liabilities arising from the acquisition are as follows:

| | NZ $ | A$ |
|---|---|---|
| Cash | 120,116 | 110,808 |
| Debtors | 2,448,038 | 2,258,338 |
| Other current assets | 81,335 | 75,032 |
| Inventories | 2,806,138 | 2,588,688 |
| Plant and equipment | 133,479 | 123,135 |
| Deferred Tax Asset | 7,719 | 7,120 |
| Trade creditors | (503,918) | (464,869) |
| Current interest bearing liabilities | (3,510,844) | (3,238,786) |
| Provision for leave | (23,391) | (21,578) |
| Other current liabilities | (1,000,987) | (923,419) |
| **Fair value of net identifiable assets acquired** | **557,685** | **514,469** |
| **Goodwill** | **17,612,612** | **16,288,701** |

The goodwill is attributable to the buyer specific synergies that arise on acquisition. The Company has undertaken an extensive analysis and considers that there are no material identifiable intangible assets.

Dorcy Irwin Pacific Pty Limited

Funtastic Limited acquired the shares of Dorcy Irwin Pacific Pty Ltd by way of Share Sale Agreement executed on the 12th August 2005, which completed on 31st August.

Dorcy Irwin is a major independent Toy distributor and the acquisition represents a further consolidation of Funtastic as the leading marketer and distributor of Children's products in Australia.

Dorcy Irwin has operations based in Sydney and Melbourne, and brings a number of strong and innovative trademarked product lines to Funtastic, including The Robo-Sapien™ and Robo-Raptor™ ranges (Australian Toy Association – Toy of the Year Winner for 2005), the Radica range of products (20Q and Password Journal) as well as Board Game brands including Cranium, Atmosfear and the Di Vinci Code.

The acquired business contributed revenues of $23,612,512 and net profit after tax of $2,137,916 to the Group for the period from 12 August 2005 to 31 December 2005. Had the business acquisition been effected at 1 January 2005, the revenue contributed by the acquired business would be $41,386,897 with net profit after tax of $2,177,435.

| Purchase consideration | A$ |
|---|---|
| Cash to Vendor | 18,081,525 |
| Earn-out consideration | 2,500,000 |
| Direct costs relating to the acquisition | 830,000 |
| **Total Consideration** | **21,411,525** |

The earn-out of $2.5 million is fully payable as the business achieved financial pre-determined profit targets for the period ended 31 December 2005.

## Notes to and Forming Part of the Financial Statements 31 December 2005

### Note 33. Acquisition of Businesses (cont.)

Assets and liabilities acquired

The fair value of assets and liabilities arising from the acquisition are as follows:

| | A$ |
|---|---|
| Cash | 567,419 |
| Debtors | 15,925,511 |
| Other Current Assets | 353,519 |
| Inventories | 7,020,576 |
| Plant And Equipment | 801,217 |
| Deferred Tax Asset | 475,043 |
| Trade Creditors | (1,823,340) |
| Current Interest Bearing Liabilities | (10,608,553) |
| Provision For Income Tax | (1,521,850) |
| Other Current Liabilities | (4,038,718) |
| Non Current Interest Bearing Liabilities | (551,899) |
| Non Current Provisions | (199,331) |
| License And Distribution Agreements | 1,375,300 |
| Supplier Relationships | 1,760,700 |
| Deferred Tax Liability | (942,630) |
| Fair Value Of Net Identifiable Assets Acquired | 8,592,964 |
| Goodwill | 12,818,561 |

The Company has undertaken an extensive analysis of identifiable intangible assets and has separately identified Licenses, Distribution Agreements and Supplier Relationships. These have been independently valued by Ernst & Young Transaction Advisory Services Limited and will be amortised over their expected lives.

Other than the Licenses, Distribution Agreements and Supplier Relationships there are no material identifiable intangible assets.

The goodwill is attributable to the buyer specific synergies that arise on acquisition.

### Note 34. Earnings per Share

| | 2005 | 2004 |
|---|---|---|
| Basic earnings per share | 17.1 Cents | 13.1 cents |
| Diluted earnings per share | 16.2 Cents | 12.3 cents |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share. | 126,167,719 | 122,021,284 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share. | 133,411,339 | 129,159,534 |

### Note 35. Related Party Transactions

Key Management Personnel

Disclosure relating to key management personnel is set out in Note 28.

Wholly Owned Group

The wholly owned group consists of Funtastic Limited and its wholly-owned controlled entities, JNH Australia Pty Limited, Fun International Limited, Funtastic International Limited, Planet Fun Pty Limited and the Dorcy Irwin Group of companies. Ownership interests in these controlled entities are set out in Note 32.

Transactions between Funtastic Limited and other entities in the wholly-owned group during the years ended 31 December 2005 and 2004 consisted of:

(a) Sales made by Funtastic Limited;
(b) loans advanced and interest charged by Funtastic Limited;
(c) management services provided by Funtastic Limited; and
(d) payment to Funtastic Limited for the above services.

Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly-owned group:

## Note 35. Related Party Transactions (cont.)

Wholly Owned Group (cont.)

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ |
| Loans to controlled entities | - | - | 22,322,664 | 50,951 |
| Loans from controlled entities | - | - | 14,720,434 | 14,690,049 |
| Sale of product to controlled entity | - | - | 235,439 | - |
| Interest charged to controlled entity | - | - | 768,202 | - |
| Provision of management services to controlled enties | - | - | 9,140,314 | 7,604,465 |

## Note 36. Segment Reporting

The Company operates within one business segment, being wholesale distribution and primarily in one geographic segment being Australia.

## Note 37. Events Occurring After Balance Date

On the 9 March 2006 the Company announced the retirement of Mr Geoff Tomlinson as Chairman effective 11 May 2006 and the appointment of Mr David Hendy as Non-executive Chairman, upon the retirement of Mr Tomlinson.

There are no other matters or circumstances that have arisen since 31 December 2005 that have significantly affected or may significantly affect:

(a) the Company's operations in future financial years;

(b) the results of those operations in future financial years; or

(c) the Company's state of affairs in future financial years.

## Note 38. Share Based Payments

Executive Share Option Plan

A scheme under which shares may be issued to employees was approved by a resolution of shareholders and Directors of the Company on 2 August 2000.

Options are granted under the plan for no consideration. Options are granted over varying periods and on conditions attributable to each issue of options. The entitlements to the options are as soon as they become exercisable.

The options are not exercisable until certain criteria are met.

Option type 1

50% (that is, 25% per annum) is exercisable on the attainment of budgeted net profit after tax for the first two years and 50% is exercisable based on the continued employment with the Company for three consecutive years.

Option type 2

50% exercisable if the average diluted EPS reaches or exceeds 13% per annum over a three year period commencing five years prior to the expiry date and;

50% exercisable if the average diluted EPS reaches or exceeds 17% per annum over the same three year period commencing five years prior to the expiry date and Executive remaining in employment at the date of vesting.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Stock Exchange during the five days immediately before the options are granted. Amounts receivable on the exercise of options are recognised as share capital.

## Notes to and Forming Part of the Financial Statements 31 December 2005

## Note 38. Share Based Payments (cont.)

Executive Share Option Plan (cont.)

Set out below are summaries of options granted under the plan.

| Grant Date | Option Nr | Expiry Date | Exercise Price | Balance at Start of Year Number | Issued during the Year Number | Exercised during the Year Number | Lapsed during the Year Number | Balance as at End of Year Number |
|---|---|---|---|---|---|---|---|---|
| Consolidated and Company – 2005 | | | | | | | | |
| 14 Sep 2000 | 1 | 14 Sep 2005 | $0.50 | 30,000 | - | 30,000 | - | - |
| 2 Apr 2002 | 2 | 2 Apr 2007 | $0.62 | 280,000 | - | 280,000 | - | - |
| 13 Nov 2002 | 4 | 13 Nov 2007 | $0.88 | 650,000 | - | - | - | 650,000 |
| 7 Mar 2003 | 4 | 7 Mar 2007 | $0.88 | 562,500 | - | 105,000 | 175,000 | 282,500 |
| 1 May 2003 | 3 | 1 Oct 2007 | $0.92 | 500,000 | - | 250,000 | - | 250,000 |
| 23 Sep 2003 | 5 | 2 Apr 2008 | $1.10 | 485,000 | - | 17,500 | 195,000 | 272,500 |
| 11 Nov 2003 | 6 | 1 Aug 2008 | $1.52 | 180,000 | - | 10,000 | 65,000 | 105,000 |
| 11 Sep 2003 | 7 | 11 Sep 2008 | $1.89 | 500,000 | - | - | 437,500 | 62,500 |
| 17 Dec 2003 | 7 | 17 Sep 2008 | $1.89 | 565,000 | - | - | 216,875 | 348,125 |
| 18 Feb 2004 | 10 | 18-Feb-2009 | $2.16 | 50,000 | - | - | 50,000 | - |
| 29 Dec 2004 | 8 | 29-Dec-2008 | $2.18 | 100,000 | - | - | 50,000 | 50,000 |
| 5 Jan 2004 | 9 | 5-Jan-2009 | $2.12 | 100,000 | - | - | 50,000 | 50,000 |
| 14 Apr 2004 | 22 | 14-Apr-2007 | $2.10 | 30,000 | - | - | 15,000 | 15,000 |
| 3 Nov 2004 | 11 | 9-Aug-2009 | $2.39 | 200,000 | - | - | 100,000 | 100,000 |
| 17 Dec 2004 | 12 | 2-Apr-2009 | $2.04 | 859,000 | - | - | 161,000 | 698,000 |
| 29 Apr 2005 | 14 | 2-Apr-2009 | $2.04 | - | 721,000 | - | 340,000 | 381,000 |
| 3 Aug 2005 | 20 | 2-Apr-2010 | $2.00 | - | 1,212,906 | - | - | 1,212,906 |
| | | | | **5,091,500** | **1,933,906** | **692,500** | **1,855,375** | **4,477,531** |
| Weighted average exercise price | | | | **$1.45** | **$2.01** | **$0.79** | **$1.79** | **$1.65** |

| Grant Date | Option Nr | Expiry Date | Exercise Price | Balance at Start of Year Number | Issued during the Year Number | Exercised during the Year Number | Lapsed during the Year Number | Balance as at End of Year Number |
|---|---|---|---|---|---|---|---|---|
| Consolidated and Company – 2004 | | | | | | | | |
| 14 Sep 2000 | 1 | 14 Sep 2005 | $0.50 | 620,000 | - | 565,000 | 25,000 | 30,000 |
| 2 Apr 2002 | 2 | 2 Apr 2007 | $0.62 | 355,000 | - | 50,000 | 25,000 | 280,000 |
| 13 Nov 2002 | 4 | 13 Nov 2007 | $0.88 | 800,000 | - | 150,000 | - | 650,000 |
| 7 Mar 2003 | 4 | 7 Mar 2007 | $0.88 | 860,000 | - | 100,000 | 197,500 | 562,500 |
| 1 May 2003 | 3 | 1 Oct 2007 | $0.92 | 500,000 | - | - | - | 500,000 |
| 23 Sep 2003 | 5 | 2 Apr 2008 | $1.10 | 660,000 | - | 77,500 | 97,500 | 485,000 |
| 11 Nov 2003 | 6 | 1 Aug 2008 | $1.52 | 280,000 | - | 25,000 | 75,000 | 180,000 |
| 11 Sep 2003 | 7 | 11 Sep 2008 | $1.89 | 500,000 | - | - | - | 500,000 |
| 17 Dec 2003 | 7 | 17 Sep 2008 | $1.89 | 575,000 | - | 1,250 | 8,750 | 565,000 |
| 18 Feb 2004 | 10 | 18-Feb-2009 | $2.16 | - | 50,000 | - | - | 50,000 |
| 29 Dec 2004 | 8 | 29-Dec-2008 | $2.18 | - | 100,000 | - | - | 100,000 |
| 5 Jan 2004 | 9 | 5-Jan-2009 | $2.12 | - | 100,000 | - | - | 100,000 |
| 14 Apr 2004 | 22 | 14-Apr-2007 | $2.10 | - | 30,000 | - | - | 30,000 |
| 3 Nov 2004 | 11 | 9-Aug-2009 | $2.39 | - | 200,000 | - | - | 200,000 |
| 17 Dec 2004 | 12 | 2-Apr-2009 | $2.04 | - | 859,000 | - | - | 859,000 |
| | | | | **5,150,000** | **1,339,000** | **968,750** | **428,750** | **5,091,500** |
| Weighted average exercise price | | | | **$1.09** | **$2.11** | **$0.68** | **$1.03** | **$1.45** |

No options were forfeited during the period

## Note 38. Share Based Payments (cont.)

### Fair Value of Options Granted

Fair values have been determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The total value of options included in remuneration for the year is calculated in accordance with AASB 2 'Share Based Payments' where the value of options is determined at grant date, and are included in remuneration on a proportionate basis from grant date to vesting date.

The model inputs for options granted during the year ended 31 December 2005 include;

| Option Nr | 14 | 20 |
|---|---|---|
| Issue Date | 29/4/2005 | 3/8/2005 |
| Vesting Date | 30/3/2007 | 31/3/2008 |
| Expiry Date | 2/4/2009 | 2/4/2010 |
| Exercise Price | $ 2.0417 | $ 2.0000 |
| Stock Price at Issue | $ 1.7200 | $ 2.0000 |
| Expected Life (Years) | 2.92yrs | 3.66yrs |
| Volatility | 30% | 30% |
| Risk Free Rate | 5.25% | 5.25% |
| Dividend Yield | 4.25% | 4.25% |
| Vesting Period (Years) | 1.92yrs | 2.66yrs |
| Value | $ 0.2270 | $ 0.4112 |

Options exercised during the financial year and number of shares issued to employees on the exercise of options.

| | Fair Value | Consolidated | | Company | |
|---|---|---|---|---|---|
| | of Shares at | 2005 | 2004 | 2005 | 2004 |
| Exercise date | Issue Date | $ | $ | $ | $ |
| 2 Mar 2004 | $2.08 | - | 300,000 | - | 300,000 |
| 9 Mar 2004 | $2.15 | - | 55,000 | - | 55,000 |
| 16 Mar 2004 | $2.13 | - | 157,500 | - | 157,500 |
| 8 Jul 2004 | $2.21 | - | 185,000 | - | 185,000 |
| 9 Aug 2004 | $2.40 | - | 150,000 | - | 150,000 |
| 1 Sep 2004 | $2.41 | - | 95,000 | - | 95,000 |
| 8 Nov 2004 | $2.60 | - | 1,250 | - | 1,250 |
| 14 Dec 2004 | $2.00 | - | 25,000 | - | 25,000 |
| 8 Feb 2005 | $1.92 | 7,500 | - | 7,500 | - |
| 21 Apr 2005 | $1.73 | 25,000 | - | 25,000 | - |
| 26 May 2005 | $1.72 | 37,.500 | - | 37,.500 | - |
| 27 May 2005 | $1.72 | 5,000 | - | 5,000 | - |
| 14 Jun 2005 | $1.81 | 10,000 | - | 10,000 | - |
| 11 Jul 2005 | $1.93 | 15,000 | - | 15,000 | - |
| 18 Jul 2005 | $1.98 | 5,000 | - | 5,000 | - |
| 19 Aug 2005 | $2.20 | 250,000 | - | 250,000 | - |
| 25 Aug 2005 | $2.20 | 12,500 | - | 12,500 | - |
| 30 Aug 2005 | $2.19 | 215,000 | - | 215,000 | - |
| 3 Oct 2005 | $2.07 | 50,000 | - | 50,000 | - |
| 10 Nov 2005 | $1.77 | 12,500 | - | 12,500 | - |
| 11 Nov 2005 | $1.76 | 25,000 | - | 25,000 | - |
| 15 Nov 2005 | $1.74 | 5,000 | - | 5,000 | - |
| 21 Nov 2005 | $1.82 | 7,500 | - | 7,500 | - |
| 5 Dec 2005 | $1.86 | 10,000 | - | 10,000 | - |
| TOTAL | | **692,500** | **968,750** | **692,500** | **968,750** |

The fair value of shares issued on the exercise of options is the weighted average price at which the Company's shares were traded on the Australian Stock Exchange on the day prior to the exercise of the options.

## Notes to and Forming Part of the Financial Statements 31 December 2005

## Note 38. Share Based Payments (cont.)

Executive Share Option Plan (cont.)

Employee options vested at the reporting date are as follows:

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Exercise Price | number | number | number | number |
| $0.50 | - | 30,000 | - | 30,000 |
| $0.62 | - | 140,000 | - | 140,000 |
| $0.88 | 932,500 | 303,125 | 932,500 | 313,125 |
| $0.92 | 250,000 | 250,000 | 250,000 | 250,000 |
| $1.10 | 62,500 | 121,250 | 62,500 | 121,250 |
| $1.52 | 35,000 | 45,000 | 35,000 | 45,000 |
| $1.89 | 133,125 | 266,250 | 133,125 | 266,250 |

| | $ | $ | $ | $ |
|---|---|---|---|---|
| Aggregate proceeds received from employees on the exercise of options and recognised as issue capital | **545,786** | **659,113** | **545,786** | **659,113** |
| Market value of shares issued to employees on the exercise of options as at their issue date | **1,446,625** | **2,128,775** | **1,446,625** | **2,128,775** |

Employee Performance Share Rights

During the year the Company established the Funtastic Employee Performance Share Rights Plan (EPSRP)

Rights are granted under the plan for no consideration. Rights are granted over varying periods and on conditions attributable to each issue of options. The entitlements to the options are as soon as they become exercisable.

The rights are not exercisable until certain performance criteria are met as follows;

50% are granted if the average diluted EPS reaches or exceeds 13% per annum over a three year period commencing three years prior to the expiry date and 50% are granted if the average diluted EPS reaches or exceeds 17% per annum over the same three year period and executive remaining in employment at the date of vesting.

Rights granted under the plan carry no dividend or voting rights.

When exercisable, each right is convertible into one ordinary share.

No consideration is payable by participants if the performance measures are achieved and the shares are granted on 2 April 2007 or 2 April 2008 respectively.

Set out below are summaries of rights granted under the plan.

| Grant Date | PSR Nr | Fair Value at Grant Date | Expiry Date | Balance at Start of Year Number | Issued during the Year Number | Exercised during the Year Number | Lapsed during the Year Number | Balance as at End of Year Number |
|---|---|---|---|---|---|---|---|---|
| Consolidated and Parent – 2005 | | | | | | | | |
| 30 Apr 2005 | 13 | $1.72 | 2-Apr-2007 | - | 105,150 | - | 16,218 | 88,932 |
| 3 Aug 2005 | 21 | $2.00 | 2-Apr-2008 | - | 176,951 | - | 19,313 | 157,639 |
| 4 Oct 2005 | 23 | $2.11 | 2-Apr-2008 | - | 4,787 | - | - | 4,787 |
| | | | | - | **286,888** | - | **35,531** | **251,358** |

No Rights were vested at the reporting date.

# Note 38. Share Based Payments (cont.)

### Executive Share Option Plan (cont.)

### Fair Value of Performance Rights Granted

Fair values have been determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The total value of performance rights included in remuneration for the year is calculated in accordance with AASB 2 'Share Based Payments' where the value of performance rights is determined at grant date, and are included in remuneration on a proportionate basis from grant date to vesting date.

The model inputs for performance rights granted during the year ended 31 December 2005 include;

| PSR Nr | 13 | 21 | 23 |
|---|---|---|---|
| Issue Date | 30/4/2005 | 3/8/2005 | 4/10/2005 |
| Vesting Date | 30/3/2007 | 31/3/2008 | 31/3/2008 |
| Expiry Date | 2/4/2007 | 2/4/2008 | 2/4/2008 |
| Exercise Price | nil | nil | nil |
| Stock Price At Issue | $ 1.72 | $ 2.00 | $ 2.11 |
| Expected Life (Year) | 1.92yrs | 2.66yrs | 2.49yrs |
| Volatility | 30% | 30% | 30% |
| Risk Free Rate | 5.25% | 5.25% | 5.25% |
| Dividend Yield | 4.25% | 4.25% | 4.25% |
| Vesting Period (Year) | 1.92yrs | 2.66yrs | 2.49yrs |
| Value | $ 1.72 | $ 2.00 | $ 2.11 |

## Notes to and Forming Part of the Financial Statements 31 December 2005

## Note 39. Impact of the Adoption of Australian Equivalents to International Financial Reporting Standards

The consolidated entity changed its accounting policies on 1 January 2005 to comply with Australian equivalents to International Financial Reporting Standards (AIFRS). The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 January 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 1 January 2005.

An explanation of how the transition from previous Australian Generally Accepted Accounting Principles (AGAAP) to AIFRS has affected the Company and consolidated entity's financial position, financial performance, and cash flows is set out in the following tables and the notes that accompany the tables.

(1) Effect of AIFRS on the balance sheet as at 1 January 2004

| | | Consolidated | | | Company | | |
|---|---|---|---|---|---|---|---|
| | Notes | Previous AGGAP $ | Effect of transition to AIFRS $ | AIFRS $ | Previous AGAAP $ | Effect of transition to AIFRS $ | AIFRS $ |
| **Current Assets** | | | | | | | |
| Cash assets | | 21,877,764 | - | 21,877,764 | 21,344,795 | - | 21,334,795 |
| Receivables | | 41,857,916 | - | 41,857,916 | 40,916,381 | - | 40,916,381 |
| Inventories | | 38,361,277 | - | 38,361,277 | 38,179,854 | - | 38,179,854 |
| Other | | 3,291,150 | - | 3,291,150 | 3,291,150 | - | 3,291,150 |
| **Total Current Assets** | | **105,388,107** | **-** | **105,388,107** | **103,732,180** | **-** | **103,732,180** |
| **Non-Current Assets** | | | | | | | |
| Property, plant and equipment | | 4,905,066 | - | 4,905,066 | 4,098,002 | - | 4,098,002 |
| Other financial assets - Investments | 3(c) | - | - | - | 30,303,609 | 495,643 | 30,799,252 |
| Intangibles | 3(c) | 38,962,705 | 495,643 | 39,458,348 | 20,534,828 | - | 20,534,828 |
| Deferred tax assets | 3(a)(c) | 1,541,776 | 1,303,032 | 2,844,808 | 1,541,776 | 1,303,032 | 2,844,808 |
| Total Non-Current Assets | | 45,409,547 | 1,798,675 | 47,208,222 | 56,478,215 | 1,798,675 | 58,276,890 |
| **Total Assets** | | **150,797,654** | **1,798,675** | **152,596,329** | **160,210,395** | **1,798,675** | **162,009,070** |
| **Current Liabilities** | | | | | | | |
| Payables | 3(c) | 15,992,883 | 1,806,262 | 17,799,145 | 14,904,082 | 1,806,262 | 16,710,344 |
| Interest bearing liabilities | | 6,555,179 | - | 6,555,179 | 6,508,926 | - | 6,508,926 |
| Provisions | | 1,356,782 | - | 1,356,782 | 1,356,782 | - | 1,356,782 |
| Current tax liabilities | 3(a) | 2,566,970 | (725,696) | 1,841,274 | 2,566,970 | (725,696) | 1,841,274 |
| Other | | 10,658,324 | - | 10,658,324 | 10,546,005 | - | 10,546,005 |
| Total Current Liabilities | | 37,130,138 | 1,080,566 | 38,210,704 | 35,882,765 | 1,080,566 | 36,963,331 |
| **Non-Current Liabilities** | | | | | | | |
| Payables | | - | - | - | 14,548,675 | - | 14,548,675 |
| Interest bearing liabilities | | 26,197,986 | - | 26,197,986 | 26,176,264 | - | 26,176,264 |
| Provisions | | 826,500 | - | 826,500 | 826,500 | - | 826,500 |
| Deferred tax liabilities | | 9,817 | - | 9,817 | 9,817 | - | 9,817 |
| Total Non-Current Liabilities | | 27,034,303 | - | 27,034,303 | 41,561,256 | - | 41,561,256 |
| **Total Liabilities** | 3(a)(c) | **64,164,441** | **1,080,566** | **65,245,007** | **77,444,021** | **1,080,566** | **78,524,587** |
| **Net Assets** | | **86,633,213** | **718,109** | **87,351,322** | **82,766,374** | **718,109** | **83,484,483** |
| **Equity** | | | | | | | |
| Contributed equity | 3(a) | 66,278,717 | 311,092 | 66,589,809 | 66,278,717 | 311,092 | 66,589,809 |
| Reserves | 3(b) | - | 580,850 | 580,850 | - | 580,850 | 580,850 |
| Retained profits | 3(a)(b)(c) | 20,354,496 | (173,833) | 20,180,663 | 16,487,657 | (173,833) | 16,313,824 |
| **Total Equity** | | **86,633,213** | **718,109** | **87,351,322** | **82,766,374** | **718,109** | **83,484,483** |

## Note 39. Impact of the Adoption of Australian Equivalents to International Financial Reporting Standards (cont.)

Effect of AIFRS on the income statement for the financial year ended 31 December 2004

| | | Consolidated | | | Company | | |
|---|---|---|---|---|---|---|---|
| | | Previous AGGAP | Effect of transition to AIFRS | AIFRS | Previous AGAAP | Effect of transition to AIFRS | AIFRS |
| | Notes | $ | $ | $ | $ | $ | $ |
| Revenue from Ordinary Activities | | 313,943,367 | - | 313,943,367 | 277,677,244 | - | 277,677,244 |
| Cost of goods sold | 3(c) | (218,055,840) | (274,351) | (218,330,191) | (183,303,998) | (274,351) | (183,578,349) |
| Warehouse and occupancy expenses | | (23,374,090) | - | (23,374,090) | (23,371,255) | - | (23,371,255) |
| Marketing expenses | | (12,366,786) | - | (12,366,786) | (12,374,951) | - | (12,374,951) |
| Selling expenses | 3(b) | (17,606,994) | (230,681) | (17,837,675) | (16,833,791) | (25,106) | (16,858,897) |
| Administration and finance expenses | 3(b)(d) | (16,966,697) | 761,753 | (16,204,944) | (15,927,162) | (445,963) | (16,373,125) |
| Borrowing costs expenses | | (2,459,346) | - | (2,459,346) | (2,457,547) | - | (2,457,547) |
| Profit from Ordinary Activities before Income Tax Expense | | 23,113,614 | 256,721 | 23,370,335 | 23,408,540 | (745,420) | 22,663,120 |
| Income tax expense | 3(a)(c) | 6,227,860 | 1,193,953 | 7,421,813 | 6,227,859 | 1,193,954 | 7,421,813 |
| **Net Profit** | | **16,885,754** | **(937,232)** | **15,948,522** | **17,180,681** | **(1,939,374)** | **15,241,307** |
| Total changes in equity other than those resulting from transactions with owners as owners | | **16,885,754** | **(937,232)** | **15,948,522** | **17,180,681** | **(1,939,374)** | **15,241,307** |
| Effect of transition to AIFRS | | | | | | | |
| Income Tax | 3(a) | | (1,276,258) | | | (1,276,258) | |
| Share based payments | 3(b) | | (1,523,636) | | | (1,523,636) | |
| Correction of error | 3(c) | | (192,046) | | | (192,046) | |
| Goodwill amortisation | 3(d) | | 2,054,708 | | | 1,052,566 | |
| Net Profit | | | **(937,232)** | | | **(1,939,374)** | |

## Notes to and Forming Part of the Financial Statements 31 December 2005

## Note 39. Impact of the Adoption of Australian Equivalents to International Financial Reporting Standards (cont.)

Effect of AIFRS on the balance sheet as at 31 December 2004

| | | Consolidated | | | Company | | |
|---|---|---|---|---|---|---|---|
| | | Previous AGGAP | Effect of transition to AIFRS | AIFRS | Previous AGAAP | Effect of transition to AIFRS | AIFRS |
| | Notes | $ | $ | $ | $ | $ | $ |
| **Current Assets** | | | | | | | |
| Cash assets | | 18,214,753 | - | 18,214,753 | 18,214,753 | - | 18,214,753 |
| Receivables | | 42,466,150 | - | 42,466,150 | 39,202,056 | - | 39,202,056 |
| Inventories | | 47,697,859 | - | 47,697,859 | 47,694,712 | - | 47,694,712 |
| Other | | 5,551,517 | - | 5,551,517 | 5,551,517 | - | 5,551,517 |
| Other current financial assets | | - | - | - | 50,951 | - | 50,951 |
| Total Current Assets | | 113,930,279 | - | 113,930,279 | 110,713,989 | - | 110,713,989 |
| **Non-Current Assets** | | | | | | | |
| Property, plant and equipment | | 6,335,985 | - | 6,335,985 | 5,687,319 | - | 5,687,319 |
| Other financial assets - Investments | 3(c) | - | - | - | 30,305,586 | 495,643 | 30,801,229 |
| Intangibles | 3(c)(d) | 36,403,995 | 2,550,351 | 38,954,346 | 18,978,260 | 1,052,566 | 20,030,826 |
| Deferred tax assets | 3(a)(c) | 1,138,473 | 834,775 | 1,973,248 | 1,138,474 | 834,774 | 1,973,248 |
| Total Non-Current Assets | | 43,878,453 | 3,385,126 | 47,263,579 | 56,109,639 | 2,382,983 | 58,492,622 |
| **Total Assets** | | **157,808,732** | **3,385,126** | **161,193,858** | **166,823,628** | **2,382,983** | **169,206,611** |
| **Current Liabilities** | | | | | | | |
| Payables | 3(c) | 19,500,948 | 2,080,613 | 21,581,561 | 17,677,901 | 2,080,613 | 19,758,514 |
| Interest bearing liabilities | | 95,756 | - | 95,756 | 95,756 | - | 95,756 |
| Current tax liabilities | | 299,729 | - | 299,729 | 299,729 | - | 299,729 |
| Other | | 13,207,667 | - | 13,207,667 | 12,978,421 | - | 12,978,421 |
| Total Current Liabilities | | 33,104,100 | 2,080,613 | 35,184,713 | 31,051,807 | 2,080,613 | 33,132,420 |
| **Non-Current Liabilities** | | | | | | | |
| Payables | | - | - | - | 14,639,099 | - | 14,639,099 |
| Interest bearing liabilities | | 26,088,555 | - | 26,088,555 | 26,088,555 | - | 26,088,555 |
| Provisions | | 865,361 | - | 865,361 | 865,361 | - | 865,361 |
| Total Non-Current Liabilities | | 26,953,916 | - | 26,953,916 | 41,593,015 | - | 41,593,015 |
| **Total Liabilities** | **3(c)** | **60,058,016** | **2,080,613** | **62,138,629** | **72,644,822** | **2,080,613** | **74,725,435** |
| **Net Assets** | | **97,750,716** | **1,304,513** | **99,055,229** | **94,178,806** | **302,370** | **94,481,176** |
| **Equity** | | | | | | | |
| Contributed equity | 3(a) | 70,964,981 | 518,328 | 71,483,309 | 70,964,981 | 518,328 | 71,483,309 |
| Reserves | 3(b) | - | 1,897,250 | 1,897,250 | - | 1,897,250 | 1,897,250 |
| Retained profits | 3(a)(b)(c) | 26,785,735 | (1,111,065) | 25,674,670 | 23,213,825 | (2,113,208) | 21,100,617 |
| **Total Equity** | | **97,750,716** | **1,304,513** | **99,055,229** | **94,178,806** | **302,370** | **94,481,176** |

## Note 39. Impact of the Adoption of Australian Equivalents to International Financial Reporting Standards (cont.)

### (2) Reconciliation of cash flow statement for the year ended 31 December 2004

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under the superseded policies.

### (3) Notes to the reconciliations of income and equity

(a) Income Taxes

Under AASB 112 Income Taxes from 1 January 2004 the Group is required to account for the differences between the accounting and taxation treatment of transaction in the Balance Sheet. Under previous AGAAP income tax was accounted for based on the differences between the accounting and taxation treatment of transactions in the Income Statement.

The effect of this is;

(i) At 1 January 2004
For the Group and Company there has been an increase in retained earnings of $1,175,758, an increase in contributed equity of $311,092, an increase in deferred tax assets of $761,154 and a reduction in current tax liabilities of $725,696.

(ii) At 31 December 2004
For the Group and Company there has been a reduction in retained earnings of $100,500, an increase in contributed equity of $311,092 and an increase in deferred tax assets of $210,592.

(iii) For the year ended 31 December 2004
For the Group and Company there has been an increase in income tax expense of $1,276,258.

(b) Share-based Payments

Under AASB 2 Share-based Payment from 1 January 2004 the Group is required to recognise an expense for those options that were issued to employees and/or other parties under the Funtastic Executive Share Option Plan or other agreements after 7 November 2002 but that had not vested by 1 January 2004.

The effect of this is:

(i) At 1 January 2004
For the Group and Company there has been a decrease in retained earnings of $580,850 and a corresponding increase in reserves.

(ii) At 31 December 2004
For the Group and Company there has been a decrease in retained earnings of $2,104,486 an increase in contributed equity of $207,236 and an increase in reserves of $1,897,250.

(iii) For the year ended 31 December 2004
For the Group and Company there has been increase in employee benefits expense of $230,681 and selling expenses of $1,292,956.

(c) Correction of Error made under Previous AGAAP

A royalty audit was conducted during the 2005 financial year. Retrospective adjustments were identified in respect of the underpayment of royalties. Due to these amendments in the calculation of amounts payable under various royalty licensing agreements, royalty expenses incurred by the Company and its subsidiaries during the 4 years to 31st December 2004 were understated by $2,080,613.

Under previous AGAAP, this error would have been corrected in the period it was discovered (the year ended 31 December 2005) Under AIFRS, the 2004 comparatives have been adjusted to reflect the correction of the error.

The effect of this is:

(i) At 1 January 2004
For the Group and Company there has been a decrease in retained earnings of $768,741, an increase in intangible assets of $495,643, an increase in payables of $1,806,262 and an increase in deferred tax assets of $541,878.

(ii) At 31 December 2004
For the Group and Company there has been a decrease in retained earnings of $960,787, an increase in intangible assets of $495,643, an increase in payables of $2,080,613, and an increase in deferred tax assets of $624,183.

(iii) For the year ended 31 December 2004
For the Group and Company there has been increase in cost of sales of $274,351 and a reduction in income tax expense of $82,305.

(d) Business Combinations

Under AASB 3 Business Combinations, there is no amortisation for Goodwill. Under AIFRS the amount previously amortised during the full year ended 31 December 2004 has been reversed.

The effect of this is:

(i) At 1 January 2004
No change to retained earnings or reserves.

(ii) At 31 December 2004
For the Group there has been an increase in retained earnings of $2,054,708 and a corresponding increase in intangible assets.
For the Company there has been an increase in retained earnings of $1,052,566 and a corresponding increase in intangible assets.

(iii) For the year ended 31 December 2004
For the Group there has been a reduction in amortisation expense of $2,054,708.
For the Company there has been a reduction in amortisation expense of $1,052,566.

# Shareholders Information

The shareholder information set out below was applicable as at 14 March 2006.

## A. Distribution Of Equity Securities

Analysis of numbers of equity security holders by size of holdings.

| Range | Holders | Ordinary Shares Options | Performance Share Rights |
|---|---|---|---|
| 1 - 1,000 | 1,549 | - | - |
| 1,001 - 5,000 | 3,989 | 2 | 4 |
| 5,001 - 10,000 | 1,555 | 8 | 12 |
| 10,001 - 100,000 | 1,225 | 27 | 10 |
| 100,001 and over | 71 | 13 | - |
| | **8,389** | **50** | **26** |

There are 279 shareholders holding less than a marketable parcel of ordinary shares.

## B. Substantial Holders

| Substantial holders in the Company are set out below: | Shares | % |
|---|---|---|
| UBS Wealth Management | 10,374,511 | 8.16% |
| NSR Toys Pty Ltd | 8,935,001 | 7.03% |
| Westpac Custodian Nominees | 8,040,140 | 6.32% |
| AH Meydan Pty Limited | 7,946,479 | 6.25% |
| | **35,296,131** | **27.76%** |

## C. Equity Security Holders

Twenty largest quoted equity security holders.

| The names of the twenty largest holders of quoted equity securities are listed below: | Shares | % |
|---|---|---|
| 1. UBS Wealth Management Australia Nominees Pty Limited | 10,374,511 | 8.16% |
| 2. NSR Toys Pty Limited | 8,935,001 | 7.03% |
| 3. Westpac Custodian Nominees Limited | 8,040,140 | 6.32% |
| 4. AH Meydan Pty Limited | 7,946,479 | 6.25% |
| 5. RBC Dexia Investor Services Australia Nominees Pty Limited (Pipooled A/c) | 4,537,505 | 3.57% |
| 6. JP Morgan Nominees Australia Limited | 4,373,505 | 3.44% |
| 7. National Nominees Limited | 4,035,338 | 3.17% |
| 8. Invia Custodian Pty Limited | 3,575,800 | 2.81% |
| 9. RBC Dexia Investor Services Australia Nominees Pty Limited (Piic A/c) | 3,088,954 | 2.43% |
| 10. RBC Dexia Investor Services Australia Nominees Pty Limited (Bkcust A/c) | 2,315,798 | 1.82% |
| 11. Equity Trustees Limited (Jm Asset Management) | 1,913,444 | 1.50% |
| 12. ANZ Nominees Limited | 1,170,098 | 0.92% |
| 13. TKM Investments | 1,054,336 | 0.83% |
| 14. Mirrabooka Investments Limited | 1,000,000 | 0.79% |
| 15. Playwell Industries Limited | 916,928 | 0.72% |
| 16. Mr Geoffrey Allen Tomlinson | 869,484 | 0.68% |
| 17. Cognent Nominees Pty Limited | 627,757 | 0.49% |
| 18. Benefund Limited | 610,000 | 0.48% |
| 19. Stuart James Hay | 538,026 | 0.42% |
| 20. Jeremy Charles Kirk-Smith | 538,026 | 0.42% |

| Unquoted equity securities | Number on Issue | Number of Holders |
|---|---|---|
| Options issued under the Funtastic Executive Share Option Plan | 4,477,531 | 50 |
| Performance share rights issued under the Funtastic Performance Share Rights Plan | 251,358 | 26 |
| Ordinary options | 1,500,000 | 1 |

No person holds 20% or more of these securities

## D. Voting Rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options
No voting rights

(c) Performance Share Rights
No voting rights

# Company Information

**Directors**
Geoff Tomlinson BEc
Chairman and Non-executive Director

Harry Boon LLB (HONS) BCom
Non-executive Director

David Berry BCom FCA FTIA
Non-executive Director

Tony Oates
Managing Director

David Hendy
Executive Director

Moshe Meydan
Executive Director

**Secretary**
David Berry

**Registered Office**
Level 2
969 Burke Road
Camberwell Victoria 3124

**Principal Administrative Office**
635 Waverley Road
Glen Waverley Victoria 3150

**Share Registry**
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Victoria 3067

**Auditors**
RSM Bird Cameron Partners
Rialto Level 8
525 Collins Street
Melbourne Victoria 3000

**Bankers**
National Australia Bank
535 Bourke Street
Melbourne Victoria 3000

**Solicitors**
Freehills
101 Collins Street
Melbourne Victoria 3000

funtastic
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