



annual report
2010



Message to Shareholders

Introduction

On behalf of the Board of Directors of Funtastic Limited we present to you our 2010 Annual Report.

The Australian Securities and Investment Commission ("ASIC") granted relief to enable the Group to change its financial year end date from 31 December to 31 July. The change of year end enables Funtastic to align its financial year end date with that of its major customers. The granting of this relief means that the financial year of the Group is a transitional period from 1 January 2010 to 31 July 2010 (i.e. seven months). The comparative period in this annual report is the 12 month period ended 31 December 2009. Hereafter the Group will report its results as normal with respect to a 31 July financial year end.

2010 was a period of continued transformation for the Group, as it continues to implement its turnaround strategy. Specifically, the restructure in the Board and senior management team has now been completed – the Group is confident that it now has the appropriate team in place in order to execute its turnaround strategy.

The Period in Review

Revenue from continuing operations has fallen and although Funtastic's key brands performed well, the Group's secondary brands suffered as retailers reduced support for all but the strongest performing brands during the tough retail trading conditions. However, the Madman Entertainment business continues to perform well despite the tough environment which has impacted the home entertainment aspect of the business. Growth in ancillary sales and the very strong theatrical performance from Animal Kingdom have compensated for the weaker performance of the home entertainment business.

During the 6 months ended 30 June 2010, the Group experienced a return to profitability; however, this has been dampened by trading activities during July which is traditionally a very soft period for the industry.

The Group has recently commenced legal proceedings to recover unpaid debts resulting from the sale of its apparel business in August 2009. The proceedings have been issued against Australian Horizons Trading Pty Limited (AHT) and Jeffrey Moss as guarantor of certain AHT obligations under the 2009 sale of business agreement (SBA). It was recently announced that PlayCorp Pty Limited has acquired the assets of the AHT business. The Group has made a claim against AHT and Jeffrey Moss. At the time of the sale of the business, the Group booked an asset based on the expected deferred consideration of the sale of the business – this amounts to \$6m as at 31 July 2010. The Group is of the view that the full amount will be recovered and that no impairment loss has been recognised in the 2010 annual report.

Outlook

The Board believes that the key challenges which have had such an adverse impact on the business over the last two years have either been resolved, or that actions have been taken to mitigate the ongoing impact. The Group's foreign exchange hedging policy has been reengineered to provide a greater degree of certainty over future effective exchange rates; this will help to smooth the impact of future exchange rate volatility.

The transformation undertaken throughout 2009 and the current period has resulted in a much simplified Group with a highly skilled management team, totally focussed on restoring the profitability of the business. The Board believes that Funtastic has an exceptional portfolio of brands, excellent systems and passionate and dedicated employees, the combination of which, they are confident, will continue to build on the return to profitability (earnings before interest, taxation and amortisation expenses "EBITA") which has been experienced during the period.

The Directors would like to thank all of our staff and customers for their ongoing loyalty whilst the Group continues to execute its turnaround strategy.

Shane Tanner

Chairman of the Board

Stewart Downs

Managing Director

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Company Information

Directors

Shane Tanner
Chairman and Independent Non-Executive Director

Stewart Downs
Managing Director and Chief Executive Officer

Nir Pizmony
Executive Director

Craig Mathieson
Non-Executive Director

James Flintoft
Independent Non-Executive Director

Company Secretary

James Cody

Registered Office

Level 2 Tower 2 Chadstone Place 1341 Dandenong Road Chadstone Vic 3148

Principal Administrative Office

Level 2 Tower 2 Chadstone Place 1341 Dandenong Road Chadstone Vic 3148

Share Registry

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Vic 3067

Auditors

Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne Vic 3000

Bankers

National Australia Bank
535 Bourke Street
Melbourne Vic 3000

Solicitors

Freehills
101 Collins Street
Melbourne Vic 3000

Corporate Governance Statement

The Corporate Governance principles that guide the operations of Funtastic Limited (“Funtastic” or “Company”) are detailed in this statement. Funtastic respects and endorses the ASX Corporate Governance Council’s Principles and Recommendations. The Board believes that it has been compliant with the spirit of the ASX Corporate Governance Council’s Principles and Recommendations throughout the 2010 financial period.

The ASX principles that have been adopted are outlined below. Where an alternative approach has been adopted, this is outlined within the relevant section. All these practices unless otherwise stated, were in place for the entire year.

Role and Responsibility of the Board

The Board of Directors is elected by the shareholders to represent the interests of all shareholders, collectively, and in this regard, its primary purpose is to safeguard the financial security of Funtastic.

Although responsibility for the operation of the Funtastic business is delegated to management, the Board remains responsible for, amongst other things:

- establishing, monitoring and modifying Funtastic’s corporate strategies;
- ensuring best practice corporate governance;
- appointing the Chief Executive Officer and approve succession plans;
- monitoring the performance of Funtastic’s management;
- ensuring that appropriate risk management systems, internal control and reporting systems and compliance frameworks are in place and are operating effectively;
- monitoring financial results;
- ensuring that business is conducted ethically and transparently;
- approving decisions concerning Funtastic’s capital, including capital restructures and dividend policy; and
- ensuring effective external disclosure policies so that the market is fully informed on all matters that may influence the share price.

Board members have complete and open access to management. The Company secretary provides advice and support to the Board and is responsible for the Company’s day to day governance framework.

Structure of the Board

The Board comprises three non-executive directors and two executive directors (the Managing Director/Chief Executive Officer and the Executive Director). The details of each director’s qualifications, experience and skills are set out on page 11 of the Annual Report.

The chairman of the Board is a non-executive director and is elected by the Board. The chairman is responsible for the management of the affairs of the Board and represents the Board in periods between Board meetings.

Board Membership

The members of the Board and details regarding their appointment, removal, term of office, attendance at Board meetings and other committee meetings, skills and experience are detailed in the Directors’ Report. The Board composition is determined using the following principles:

- the Board should comprise between 3 and 9 directors;
- the maximum age for directors is 72;

- the Board should comprise directors with a broad range of skills and experience; and
- the term of any appointment is subject to continuing shareholder approval.

The directors believe that limits on tenure may cause loss of experience and expertise that are important contributors to the efficient working of the Board. As a consequence, the Board does not support arbitrary limits on tenure and regards nominations for re-election as not being automatic but based on the needs of Funtastic. The constitution sets out the rules to which Funtastic must adhere and which include rules as to the nomination, appointment and re-election of directors. The constitution provides for two of the directors (excluding the Managing Director) to retire and stand for re-election each year at the Annual General Meeting. Directors appointed during the year by the Board stand for re-election at the next Annual General Meeting.

Board and Director Independence

The Board has assessed the criteria for independence as outlined in the ASX Corporate Governance Council’s best practice recommendation 2.1. Independent directors of Funtastic are those not involved in the day to day management of the company and are free from any real or reasonably perceived business or other relationship that could materially interfere with the exercise of their unfettered and independent judgement.

Currently, two of the three directors are considered to be independent. It is the Board’s view Mr Shane Tanner and Mr James Flintoft are independent directors.

Mr Craig Mathieson is not considered to be an independent director due to him being a substantial shareholder and having an interest in a company that supplies services to Funtastic.

Mr Stewart Downs and Mr Nir Pizmony are Executive Directors and are deemed not to be independent directors.

Regardless of whether directors are defined as independent, all directors are expected to bring independent views and judgement to Board deliberations.

The Board strongly believes that the degree of commitment, depth of experience and independence of thought present in the current structure is appropriate and will best serve the company and all its shareholders at this stage of its development. The Board periodically assesses the independence of each director.

Funtastic operates in an entrepreneurial environment and requires, and benefits from, the passionate involvement of directors who have been either instrumental in the business, and or who have specialised knowledge of, and expertise in, this business sector.

Funtastic has noted the ASX Corporate Governance Council’s best practice recommendation that listed companies have an independent director as Chairman of the Audit, Risk and Compliance Committee. This Committee is comprised of two independent non executive directors. Mr Craig Mathieson is the chairman of the committee. The Board considers that two independent directors on the committee are sufficient for the independence of the committee.

Corporate Governance Statement (continued)

Work of Directors

Materials for Board meetings are circulated in advance. The agenda is formulated with input from the Chief Executive Officer and the Chairman. Directors are free to nominate matters for inclusion on the agenda for any Board or Board committee meeting.

The Board is provided with reports from management on the financial performance of each business unit. The reports include details of all key financial results reported against budgets approved by the Board, with regular updates on forecasts for the year. The Chief Executive Officer and Chief Financial Officer attest to the integrity of the financial reports provided to the Board each meeting. Similarly, the written statement provided to the Board, in relation to Funtastic's full year accounts states that Funtastic's financial reports present a true and fair view, in all material respects. Further, it confirms that Funtastic's financial condition and operational results are in accordance with relevant accounting standards.

Non-executive directors spend approximately thirty days each year on Board business and activities including Board and committee meetings, visits to operations and meeting employees, customers, business associates and other stakeholders.

The Chairman regularly meets with the Chief Executive Officer to review key issues and performance trends affecting the business of Funtastic.

Conflict of Interest

In accordance with the Corporations Act 2001 (Clth) and Funtastic's Constitution, directors must keep the Board advised on an ongoing basis, of any interest that could potentially conflict with those of Funtastic. Where the Board believes that a significant conflict exists, the director concerned does not receive the relevant Board papers and is not present at the meeting while the item is considered.

Independent Professional Advice

Each director has the right to seek independent professional advice at the expense of Funtastic. Prior written approval of the chairman is required, which will not be unreasonably withheld. All directors are made aware of the professional advice sought and obtained.

Communication and disclosure

The company complies with all relevant disclosure laws and Listing Rules prescribed by the ASX and has policies and procedures designed to ensure accountability at a senior management level for that compliance.

The company secretary is accountable to the Board, through the Chairman, on compliance and governance matters.

Funtastic is committed to effective communication with its investors so as to give them ready access to balanced and understandable information.

Director competencies

The Board plans annual self assessments of its collective performance, and its subcommittees. This exercise takes into consideration the collective directors competency, skills, experience and expertise. Where necessary, Funtastic will provide the required resources to assist directors in improving their performance.

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.

Ethical Standards

All directors, officers and employees are expected to perform their duties professionally and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of Funtastic and its brands. The Board oversees the identification and implementation of procedures and development of policies in respect of the maintenance of appropriate ethical standards. Funtastic has a Code of Conduct, which sets out the standards as to how directors and employees of Funtastic are expected to act. Employees are required to read the updated Employee Code of Conduct in the performance of their duties and to sign an acknowledgement stating that they have read and understood this document.

Dealings in Funtastic shares by Directors, Officers and Employees

The Board permits directors to acquire shares in Funtastic. It is recommended that all employees do not buy or sell 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 during certain "blackout" periods. These blackout periods are:

- (a) From the close of the accounts (on 31 January each year) to 2 business days after the publication to the ASX of the half-year financial results; i.e. the Appendix 4D (a 2 business day blackout period would apply from the publication to the ASX of the final half-year financial report in the event that they were materially different from the Appendix 4D results);
- (b) From the close of the accounts (on 31 July each year) to 2 business days after the publication to the ASX of the full-year financial results; i.e. the Appendix 4E (a 2 business day blackout period would apply from the publication to the ASX of the final full-year financial report in the event that they were materially different from the Appendix 4E results); and
- (c) Forty-eight hours after the public release of any market guidance update.

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.

In accordance with provisions of the Corporations Act 2001 (Clth) and the Listing Rules of the Australian Stock Exchange (ASX), directors or their related entities advise the ASX of any transaction conducted by them in buying or selling any shares in Funtastic.

Ethical Compliance

Funtastic uses its best endeavours through contract negotiations to ensure that all its products are manufactured in accordance with local and internationally accepted labour, environmental and employment laws. Funtastic is working to ensure that manufacturing occurs under working conditions that meet legal standards and without the use of child, forced or prison labour.

Corporate Governance Statement (continued)

Nomination Committee

The current members of the Nomination Committee are Shane Tanner (Chairman), Craig Mathieson and James Flintoft.

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.

Nomination Committee Charter and Responsibilities

The principal purposes of the Committee are to:

- establish a formal and transparent procedure for the selection and appointment of new directors to the Board;
- regularly review the succession plans in place for membership of the Board to ensure that an appropriate balance of skills, experience and expertise is maintained;
- review the time commitment required from a non-executive director and whether non-executive directors are meeting this requirement; and
- take all reasonable steps to ensure that all individuals nominated for appointment to the Board as a non-executive director, expressly acknowledge prior to their election, that they are able to fulfill the responsibilities and duties expected of them.

The committee seeks advice and guidance, as appropriate, from external experts.

Audit, Risk and Compliance Committee

The members of the Audit, Risk and Compliance Committee are Craig Mathieson (Chairman), Shane Tanner and James Flintoft.

Audit, Risk and Compliance Committee Charter and Responsibilities

The Committee's key responsibilities and functions are to:

- monitor the company's relationship with the external auditor (including the rotation of external auditor personnel on a regular basis) and the external audit function generally;
- oversee the adequacy of internal control systems in relation to the preparation of financial statements and reports; and
- oversee the process of identification and management of business, financial and commercial risks.

Meetings of the Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee may have in attendance or by invitation such members of management or others as it may deem necessary to provide appropriate information or explanations.

The Audit, Risk and Compliance Committee meets at least three times per year and more frequently if required. The External Auditor was appointed on 11 May 2006 following the completion of a tender process. The External Auditor attends Audit, Risk and Compliance Committee meetings when requested by the Audit, Risk and Compliance Committee Chairman.

Reporting by the Audit, Risk and Compliance Committee

The Chairman of the Audit, Risk and Compliance Committee ordinarily reports to the full Board after committee meetings. The Audit, Risk and Compliance Committee reports matters regarding its role and responsibilities, including:

- the system of internal control, which management has established to safeguard the company's assets;
- processes are in place such that accounting records are properly maintained in accordance with statutory requirements; and
- processes exist to reasonably guarantee that financial information provided to investors and the Board is reliable and free of material misstatement.

The following are intended to form part of the normal procedures for the Committee's audit responsibility:

- recommending to the Board the appointment and removal of the external auditors and reviewing the terms of engagement;
- approving the audit plan of the internal and external auditors;
- monitoring the effectiveness and independence of the external auditor;
- obtaining assurances that the audit is conducted in accordance with the Auditing Standards and all other relevant accounting policies and standards;
- providing recommendations to the Board as to the need for and the role of an internal audit function.
- reviewing and appraising the quality of audits conducted by the internal and external auditors and confirming their respective authority and responsibilities;
- monitoring the relationship between management and the external auditors;
- determining the adequacy, effectiveness, reliability, and appropriateness of administrative, operating and internal control systems and policies;
- evaluating compliance with approved policies, controls, and with applicable accounting standards and other requirements relating to the preparation and presentation of financial results;
- overseeing financial reporting and disclosure practice and the resultant information; and
- reviewing (in consultation with management and external auditors) the appropriateness of the accounting principles adopted by management in the composition and presentation of financial reports and approving all significant accounting policy changes.

Corporate Governance Statement (continued)

Recognising and managing risk

The responsibility for risk management and oversight is coordinated through the Audit, Risk and Compliance Committee, in conjunction with management. The committee's specific function with respect to risk management is to review and report to the Board that:

- the company's ongoing risk management program effectively identifies areas of potential risk;
- adequate policies and procedures are designed and implemented to manage identified risks;
- a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
- appropriate remedial action is undertaken to redress areas of weakness.

The following are intended to form part of the normal procedures for the Committee's risk responsibility:

- determine the adequacy and effectiveness of the management reporting and systems used to monitor adherence to policies and guidelines and limits approved by the Board for management of financial risks;
- determine the adequacy and effectiveness of financial and operational risk management systems by reviewing risk registers and reports from management and external auditors;
- evaluating the structure and adequacy of business continuity plans;
- determine the appropriateness of insurances on an annual basis;
- reviewing and making recommendations on the strategic direction, objectives and effectiveness of financial and operational risk management policies;
- overseeing the establishment and maintenance of processes to ensure that there is:
 - an adequate system of internal control, management of business risks and safeguard of assets; and
 - a review of internal control systems and the operational effectiveness of the policies and procedures related to risk and control.
- evaluating exposure to fraud and monitoring investigations of allegations of fraud or malfeasance;
- reviewing corporate governance practices for completeness and accuracy;
- determining the adequacy and effectiveness of legal compliance systems; and
- providing recommendations as to the reporting of and propriety of related party transactions.

Management Certification Process

A management certification process has been introduced across the business. The process serves the following purposes:

- provide assurance to the Board to support their approval of the annual financial reports;
- formalise the process by which the executive team sign-off on those areas of risk responsibility delegated to them by the Board; and
- ensure a true and fair view of Funtastic's financial statements.

The key steps in the certification process are as follows:

- completion of a questionnaire by key management covering information that is critical to the financial statements, risk management and internal controls; and
- review by the Audit, Risk and Compliance Committee of all exceptions and management comments.

Certification by the Chief Executive Officer and Chief Financial Officer to the Board that:

- the financial statements provide a true and fair view, in all material respects of Funtastic's financial condition and operating results;
- the financial statements provide a sound system of risk management and internal compliance and control;
- there is compliance with relevant laws and regulations;
- Funtastic's risk management, internal compliance and control systems are operating efficiently and effectively in all material respects; and
- all material business risks have been identified and communicated to the Board.

Internal Audit Function

There is a dedicated internal audit function to conduct internal control reviews and assessments as and when required by the Audit, Risk and Compliance Committee. The Board receives and reviews the minutes of the meetings of all Board committees including the Audit, Risk and Compliance Committee.

The external audit function is separate and independent of the above functions.

Remuneration and Evaluation Committee

The members of the Remuneration and Evaluation Committee are James Flintoft (Chairman), Craig Mathieson and Shane Tanner.

The Remuneration and Evaluation Committee is appointed by the Board primarily to:

- monitor, review, assess, recommend, and approve, remuneration policies and practices which will serve to attract and retain executives and directors who will create value for shareholders. These policies and practices should fairly and responsibly reward executives and directors, having regard to the performance of the Company, the performance of the individual, and the general remuneration environment;
- succession planning for Senior Executives who report directly to the Chief Executive Officer;
- the remuneration, superannuation and incentive policies for Senior Executives who report directly to the Chief Executive Officer; and
- all equity and cash-based remuneration plans.

The Remuneration and Evaluation Committee provides additional support for the human resources strategy of Funtastic. It assists the Board by ensuring that the appropriate people, people related strategies, policies and procedures are in place to support Funtastic's vision and values, and its strategic and financial goals.

Corporate Governance Statement (continued)

Remuneration and Evaluation Committee Charter and Responsibilities

The committee is responsible for monitoring, reviewing, reporting and recommending to the Board with respect to each of the following:

- the company's policy for determining executive and non-executive directors remuneration, superannuation, and incentives as well as any retention or other compensation payments, and any proposed amendments to the policy;
- remuneration includes base pay, incentive payments, equity awards, retirement rights and service contracts;
- the implementation of the remuneration policy;
- the proposed specific remuneration for each non-executive and executive director; including the Chief Executive Officer; having regard to independent advice and the remuneration policy. The committee will need to determine whether any shareholder approvals are required. The remuneration of individual non-executive directors will ultimately be determined by the Board and, approved in aggregate by the shareholders in accordance with the Corporations Act 2001 (Clth) and the ASX Listing Rules;
- the proposed specific remuneration and other benefits for the direct reports of the Chief Executive Officer and the design of all incentive plans, including performance hurdles; and
- the total proposed payments from any executive incentive plan.

The committee seeks advice and guidance, from external experts, as appropriate.

The review of the performance of the Chief Executive Officer 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 Chief Executive Officer who provides a recommendation to the Remuneration and Evaluation Committee on any remuneration adjustments or incentive payments. The committee provides its recommendation to the Board for approval.

Remuneration Policy

Funtastic's remuneration policies and practices in relation to directors and senior management are disclosed in the remuneration report contained in the Directors' Report.

Remuneration Disclosure

The Remuneration Report contained in the Directors' Report discloses the director's, non-executive director's and key management personnel's remuneration, benefits, incentives and allowances where relevant.

Directors' Report

Change in financial year end date

Your Directors present their report on the Group consisting of Funtastic Limited and the entities it controlled at the end of, or during, the period ended 31 July 2010.

The Australian Securities and Investment Commission ("ASIC") granted relief to enable the company to change its financial year end date from 31 December to 31 July. The change of year end enables Funtastic to align its financial year end date with that of its major customers. The granting of this relief means that the financial year of the company is a transitional period from 1 January 2010 to 31 July 2010 (i.e. seven months). The comparative period in this annual report is the 12 month period ended 31 December 2009. Hereafter the Company will report its results as normal with respect to a 31 July financial year end.

Directors

The following persons were directors of Funtastic Limited during or since the end of the financial year:

Director	Particulars
Shane Tanner F CPA, ACIS Chairman and Independent Non-executive director	Appointed to the Board in March 2009 as an Independent Non-executive director and appointed as Chairman of the Board effective from the AGM on 21 May 2010. Mr Tanner is Chairman of the Nomination Committee and a member of the Remuneration and Evaluation Committee and the Audit, Risk and Compliance Committee. He is Chairman of Vision Group Holdings Ltd and Paragon Care Ltd. Mr Tanner is a former CEO of Mayne Nickless Diagnostic Services and Director of Sterihealth Ltd. Mr. Tanner has a vast commercial and financial experience.
Graeme Yeomans Chairman and Independent Non-executive director	Mr Yeomans resigned as Chairman of the Board effective from the AGM on 21 May 2010. He joined the Board in September 2007 as an Independent Non-executive director. Mr Yeomans was a member of the Remuneration and Evaluation Committee and Chairman of the Nomination Committee. Mr Yeomans was appointed Chairman of the Board on 24 September 2008. Mr Yeomans is a former Managing Director of Associated Retailers Ltd and Repco Ltd. He has also held directorships with Sterihealth Ltd and Finance Management Solutions Ltd.
Stewart Downs Managing Director and Chief Executive Officer	Joined the Board in August 2009. Mr Downs has been the Chief Executive Officer of Funtastic since February 2009. Mr Downs has had an expansive career in branded consumer businesses across Australia, New Zealand and Asia successfully leading turnarounds in Australia and developing new businesses in Asia. He has held roles across sales, marketing, finance and in the last 10 years senior general management positions. He has a Bachelor of Business and Commerce majoring in Economics, Business Administration and Accountancy.
Craig Mathieson B.Bus Non-executive director	Appointed to the board in August 2009 as a Non-executive director. Mr Mathieson is Chairman of the Audit, Risk and Compliance Committee, a member of the Remuneration and Evaluation Committee and of the Nomination Committee. Mr. Mathieson is CEO of The Mathieson Group. He was MD of DMS Glass from 2001 to 2007. He has a banking and commercial background gained while working with Business Banking division of ANZ Bank and Property Finance division of St George Bank.



Craig Mathieson



Nir Pizmony



James Cody

Directors' Report (continued)

Nir Pizmony
Executive director

Appointed to the board in August 2009 as an Executive director. Mr Pizmony has over twenty-five years' experience in consumer products, he has founded, developed and subsequently sold two successful toy companies. Nir's knowledge and reputation in the toy industry is well proven both in Australia and globally.

James Flintoft
LL.B./B.Sc., MBA
Independent Non-executive director

Appointed to the Board in January 2010 as an Independent Non-executive director. Mr. Flintoft is a member of the Audit, Risk and Compliance Committee, the Nomination Committee and Chairman of the Remuneration and Evaluation Committee.

Mr. Flintoft brings a range of operational, financial and strategic capabilities to the Board of Funtastic Ltd. He has led large, diverse businesses including as Managing Director, Business Banking at ANZ Banking Corporation; he developed his strategic skills during his time at McKinsey & Company and more recently as Managing Director, Asia Strategy at ANZ Banking Corporation.

Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial period are as follows:

Director	Company	Period
Shane Tanner	Vision Group Holdings Limited	2004 to current
	Paragon Care Limited	2005 to current
	Sterihealth Limited	2001 to 2008
Graeme Yeomans	Sterihealth Limited	2005 to 2008
	Repco Limited	2006 to 2007
Stewart Downs	None	
Craig Mathieson	None	
Nir Pizmony	None	
James Flintoft	None	



Stewart Downs



Shane Tanner



James Flintoft

Directors' Report (continued)

Company Secretary

Mr. James Cody was appointed to the position of Company Secretary on 26 March 2010. Mr. Cody is also the Chief Financial Officer of the Company and is a CIMA (UK) qualified finance director with a wealth of retail experience, and also brings with him a successful record of strategic and commercial management such that he is considered a key asset to the Group in executing its turnaround strategy.

Principal activities

The Company's principal continuing activity during the period was as a wholesaler and distributor operating predominantly in Australia.

Change in year-end & half-year financial reports

During the period, the Company changed its year-end from 31 December to 31 July. The current reporting period is therefore the 7 month period ended 31 July 2010 whilst the comparative period is the 12 month period ended 31 December 2009.

Under subsection 340(1) of the Corporations Act 2001 (the Act), on 17 June 2010 the Australian Securities and Investments Commission made an order relieving the Company from compliance with section 302 of the Act with respect to the half-year of the Company ended 30 June 2010. Accordingly, the Company will not prepare and lodge a half-year financial report for the half-year ended 30 June 2010; instead, the Company will prepare an annual financial report for the period from 1 January 2010 to 31 July 2010 and for every 12 months ended 31 July thereafter. The Company's first half-year financial report will be for the 6 months ending 31 January 2011.

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Environmental regulations

The Group is not required to hold any Environmental Protection Authority Licences.

Review of operations

Key matters impacting the results for the period ended 31 July 2010 include the following:

- the current period is a 7 month period whereas the comparative period is for the 12 months ended 31 December 2009;
- revenue from continuing operations has fallen and although Funtastic's key brands performed well, the Group's secondary brands suffered as retailers reduced support for all but the strongest performing brands during the tough retail trading conditions;
- additionally, the loss of former key brands Thomas the Tank Engine, WWE and Bratz in 2009 continued to impact revenues in the first part of 2010, however the Group's International division has shown promising sales growth;
- gross margins have increased during the period as a result of improved currency hedging arrangements and reduced clearance activity as a result of improved inventory management;
- the improvement in gross margins combined with a lower cost base has driven an improvement in profitability, specifically EBITA from continuing operations has increased from a loss of \$21.0m in the comparative period to a profit of \$0.7m in the current period;
- completion of the earn-out payments with respect to the Madman group of companies;
- securing ongoing bank facilities to 31 August 2011;
- continued strengthening of the senior management team; and
- discontinued operations relate to businesses disposed during the prior year.

The table below shows the contributions from the continuing and discontinued operations and the effect on the trading result:

	7 months Ended 31 July 2010 \$'000	12 months Ended 31 December 2009 \$'000	Variance \$'000	%
Revenue				
Continuing operations	111,052	229,933	(118,881)	(51.7%)
Discontinued operations	-	45,027	(45,027)	(100.0%)
Group Revenue	111,052	274,960	(163,908)	(59.6%)
EBITA				
Continuing operations	698	(20,971)	21,669	103.3%
Discontinued operations	-	(18,042)	18,042	100.0%
EBITA before Impairment & Restructuring Costs	698	(39,013)	39,711	101.8%
Impairment Charges	-	(17,528)	17,528	100.0%
Restructuring Costs	-	(2,717)	2,717	100.0%
Group EBITA	698	(59,258)	59,956	101.2%
NPAT	(3,579)	(58,053)	54,474	93.8%

Directors' Report (continued)

Outlook

The turnaround of the Group, as discussed below, continues to progress and management remains confident of further improvements in the financial performance of the business moving forward.

Financing Arrangements

On 13 August 2009, the Group restructured its financing arrangements with its senior lender. In accordance with the resulting Facilities Agreement, there are no financial covenants applicable until 31 December 2010. However, on receipt of the Group's budget for the 2011 financial year, the senior lender is able to introduce financial covenants to apply to the Group's financing arrangements after 31 December 2010. Based on discussions with the senior lender, management anticipates that any financial covenants introduced will be reasonable and commercial. No financial covenants have yet been advised by the senior lender at the date of this report.

During the period ended 31 July 2010, the Group extended the maturity date of its financing arrangements to 31 August 2011, on similar terms.

Looking Forward

In the last eighteen months, the Board and management have taken a number of steps to transform the business for a more sustainable future:

- the Board is entirely new, with all of the current directors having been appointed in the last eighteen months;
- the senior management team has been completely restructured with the majority being new to the Group;
- management have reset the balance sheet through the actions taken in respect of inventory, goodwill impairment and the capital raising;
- the Toys and Lifestyle Merchandise business has been simplified and a clear growth strategy put in place around a core brand proposition and a more focused product range;
- in August the management team undertook further cost base reductions driven in part by the tougher than expected retail environment, but also by having developed a better understanding of the optimal operating cost model for the Group;
- the growth of the International business continues to expand the Group's distribution reach;
- the planning system implemented in 2009 is enabling more accurate purchasing decisions and therefore more sustainable inventory levels;
- significant new product launches are scheduled in the coming months for Razor Black Label, Leapfrog Explorer and Ben10 Ultimate Alien; and
- the business has secured exciting new brands to complement the existing portfolio in 2011 in Zibits, Hero 108, the new Tamigotchi, Power Rangers and Air Hogs.

The Board believes that the Group is now starting to realise the benefits of the changes undertaken during the last eighteen months. They are confident that the business now has the right talent, products, systems and the right cost base to enable it to flourish in the future.

Dividends

Since the end of the period the directors have decided not to declare a final dividend for the period ended 31 July 2010 (2009: Nil).

Rounding of amounts to nearest thousand dollars

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the 'rounding off' of amounts in the Directors Report. Amounts in the Annual Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Directors' Report (continued)

Share Options

Share options and Performance Share Rights granted to directors and executives

Options

During and since the end of the financial period an aggregate of 1,750,000 share options over unissued ordinary shares of Funtastic Limited were granted to the following directors and executives of the Company as part of their compensation:

Directors and executives	Number of Options Granted	Issuing entity	Number of ordinary shares under option
James Cody	1,000,000	Funtastic Limited	1,000,000
Adam Kocks ⁽¹⁾	750,000	Funtastic Limited	750,000
Total	1,750,000		1,750,000

(1) Mr. A Kocks was appointed General Manager – ASIA effective 1 January 2010.

Performance Share Rights

No performance share rights were granted to directors and executives during or since the end of the financial period.

Shares under option or issued on exercise of options

Details of unissued shares or interests under option or performance share rights issued by Funtastic Limited as at the date of this report are:

(a) Executive Share Options (ESOPs)

Issuing entity	Number of ordinary shares under option	Class of share	Exercise Price of options	Expiry Date of options
Funtastic Limited	200,000	Ordinary	\$0.440	02/09/2013
Funtastic Limited	4,000,000	Ordinary	\$0.135	10/08/2014
Funtastic Limited	1,000,000	Ordinary	\$0.207	01/04/2015
Funtastic Limited	750,000	Ordinary	\$0.207	01/04/2015
Total ESOP	5,950,000			

(b) Ordinary Options

Issuing entity	Number of ordinary shares under option	Class of shares	Exercise Price of ordinary options	Expiry Date of ordinary options
Funtastic Limited	1,500,000	Ordinary	\$1.50	19/01/2014
Total Ordinary Options	1,500,000			

(c) Performance share rights

Issuing entity	Number of ordinary shares under rights	Class of rights	Exercise Price of rights	Expiry Date of rights
Funtastic Limited	20,000	Ordinary	-	02/09/2013
Total Performance Share Rights	20,000			

Directors' Report (continued)

Indemnity of officers and auditors

During the financial period the Company paid a premium in respect of a contract insuring the directors of Funtastic Limited 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 (Clth). 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 end of the financial period, except to the extent permitted by law indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred by such an officer or auditor.

Meetings of Directors

The numbers of meetings of the Company's directors held during the period ended 31 July 2010 and the number of meetings attended by each director were:

	Board of directors		Audit, Risk and Compliance Committee		Remuneration and Evaluation Committee		Nomination Committee	
	A	B	A	B	A	B	A	B
S Tanner ⁽¹⁾	6	7	2	2	2	2	1	1
G Yeomans ⁽²⁾	4	4	2	2	-	-	-	-
S Downs	7	7	-	-	2	2	-	-
C Mathieson	6	7	2	2	2	2	1	1
N Pizmony	7	7	-	-	-	-	-	-
J Flintoft ⁽³⁾	7	7	2	2	2	2	1	1

(1) Mr S Tanner - appointed Chairman 21 May 2010;

(2) Mr G Yeomans - resigned effective 21 May 2010; and

(3) Mr J Flintoft - appointed independent non-executive director effective 15 January 2010.

Column A indicates the number of meetings attended during the period the Director was a member of the Board and/or Committee(s).

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

Directors' Report (continued)

Directors' share holdings

Securities in the Company or in a related body corporate in which directors have a relevant interest as at the date of this report were:

Director	Ordinary Shares No.	Share Options No.	Performance Share Rights No.
S Tanner	200,000	-	-
S Downs	1,642,890	4,200,000	-
C Mathieson	91,031,312	-	-
N Pizmony	16,855,742	-	-
J Flintoft	1,350,848	-	-
J Flintoft	1,350,848	-	-

Remuneration Report

Details of key management personnel

The following persons acted as directors of the Group and Company during or since the end of the financial period:

Shane Tanner	Chairman and Independent Non-executive director – appointed Chairman effective 21 May 2010
Graeme Yeomans	Chairman and Independent Non-executive director – resigned effective 21 May 2010
Stewart Downs	Managing director and Chief Executive Officer
Craig Mathieson	Non-executive director
Nir Pizmony	Executive director
James Flintoft	Independent Non-executive director – appointed effective 15 January 2010

The highest remunerated Group and Company executives for the financial period were:

Stewart Downs	Managing Director and Chief Executive Officer
Nir Pizmony	Executive Director
Tim Anderson	Joint General Manager - Entertainment
Paul Wiegard	Joint General Manager - Entertainment
Adam Kocks	General Manager Asia
Garry Mudford	General Manager TLM – redundant 2 September 2010
James Cody	Chief Financial Officer

There were no additional key management personnel for the 2010 financial period.

Remuneration policy for directors and executives

Principles of Compensation

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

Compensation of the senior executives is reviewed on an annual basis by the Remuneration and Evaluation Committee having regard to personal and corporate performance and relevant comparative information. Compensation for senior executives comprises both fixed compensation 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 and the Funtastic Employee Performance Share Rights Plan.

Directors' Report (continued)

Remuneration Report (continued)

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

Compensation and other terms of employment for senior executives are formalised in service agreements.

Compensation and company performance

The Group's executive remuneration is directly related to the performance of the Group through the linking of short and long term incentives to certain financial performance measures. These performance measures, as described below, are selected by the board of directors and considered relevant to the management of the diverse operations of the Group and effectively align the long-term interests of the directors, executives and shareholders. The performance conditions are assessed annually by the Remuneration and Evaluation Committee to ensure they remain relevant.

Funtastic Limited's Net Profit after Tax (NPAT) and Diluted Earnings per Share (EPS) growth have been the central performance measures for the Company's incentive plans for executives since listing (2001). Other measures include revenue growth, return on average funds employed, net operating cash flow, total shareholder return and other business objectives.

As the Group continues to implement its turnaround strategy, the total Short Term Incentive ("STI") eligible payments made in 2010 were Nil (2009: Nil). The long term financial incentive performance hurdle rates have not been achieved, either in financial year 2009 or in financial period 2010.

The table below shows the Group's earnings in the reporting period and the previous four financial years as well as indication of the Group's value over the corresponding period:

	Period				
	7 months ended 31 July 2010	12 months ended 31 Dec 2009	12 months ended 31 Dec 2008	12 months ended 31 Dec 2007	12 months ended 31 Dec 2006
NPAT (\$'000)⁽ⁱ⁾	(3,579)	(41,664)	(41,544)	5,749	12,068
EPS Basic (Cents)⁽ⁱⁱ⁾	(1.05)	(17.9)	(25.1)	3.2	9.4
Diluted EPS (Cents)⁽ⁱⁱ⁾	(1.05)	(17.9)	(25.1)	3.2	9.4
Total Dividends (\$'000)	Nil	Nil	Nil	13,023	13,575
Year End Share Price	0.22	0.22	0.18	0.65	1.62
Shares on Issue	340,997,682	340,997,682	165,498,841	165,498,841	132,760,618
Market Capitalisation (\$'000)	75,019	75,019	29,790	106,747	214,408

(i) NPAT from continuing operations

(ii) Basic & Diluted EPS from continuing operations

Directors' Report (continued)

Remuneration Report (continued)

Components of Compensation

Fixed Compensation

The terms of employment for all executive management contain a fixed compensation 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 executives' compensation is also reviewed on promotion.

Fixed compensation includes contributions to superannuation and pension plans in accordance with relevant legislation or as contractually required. Fixed compensation 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 executive's contract.

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 Compensation

Annual Bonus

The annual cash bonus represents the actual entitlements payable under Funtastic's annual short-term incentive plan (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 compensation. In relation to members of the senior executive team, this generally comprises an amount of between 25% and 50% of their fixed annual compensation for achieving a range of target performance criteria.

Previously, during the year ended 31 December 2009, the performance measures were based on NPAT, inventory levels and product category earnings. In 2009 proportions applicable to each component and entitlement were determined according to the respective executive's level and area of responsibility. Performance against the objectives was determined and incentives and entitlements assessed against the audited financial results.

In the current period, the Group changed its year-end to 31 July and accordingly management and the Remuneration and Evaluation Committee will revisit the STI plan with respect to hurdles, KPI's and also align the STI plan assessment period with the Group's revised financial year; i.e. from 1 August through 31 July.

As a result of the Group's turnaround strategy and the revision to the STI plan, there were no STI plan bonuses paid, or payable, to any Group executive for the period ended 31 July 2010.

Directors' Report (continued)

Remuneration Report (continued)

Key management personnel compensation

Key management personnel comprises the directors and the identified Group executives. The aggregate compensation of the key management personnel of the Group is set out below:

7 months ended 31 July 2010	Short-term employee benefits				Post-employment benefits		Other long-term employee benefits	Share-based payments			
	Salary and fees	Cash Bonus	Non-monetary benefits	Other	Super-annuation	Other		Termination benefits	Options / PSRs	Total	Consisting of options / PSRs
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Directors											
Shane Tanner ⁽¹⁾	60,958	-	-	-	-	-	-	-	-	60,958	-
Graeme Yeomans ⁽²⁾	53,458	-	-	-	4,811	-	-	-	-	58,269	-
Stewart Downs	269,471	-	-	-	9,299	-	-	-	55,100	333,870	16.5%
Craig Mathieson	39,935	-	-	-	3,594	-	-	-	-	43,529	-
Nir Pizmony	213,126	-	-	-	19,181	-	-	-	-	232,307	-
James Flintoft ⁽³⁾	35,833	-	-	-	3,225	-	-	-	-	39,058	-
	672,781	-	-	-	40,110	-	-	-	55,100	767,991	
Executives											
Garry Mudford ⁽⁵⁾	191,814	-	-	-	17,263	-	-	-	13,163	222,240	5.92%
Tim Anderson	190,932	-	-	-	12,338	-	-	-	-	203,270	-
Paul Wiegard	186,486	-	-	-	16,784	-	-	-	-	203,270	-
Adam Kocks ⁽⁴⁾	111,470	-	-	155,510	11,633	-	-	-	10,735	289,348	3.71%
James Cody	176,481	-	-	-	9,365	-	-	-	15,109	200,955	7.52%
	857,183	-	-	155,510	67,383	-	-	-	39,007	1,119,083	
	1,529,964	-	-	155,510	107,493	-	-	-	94,107	1,887,074	

(1) Mr S Tanner - appointed Chairman effective 21 May 2010;

(2) Mr G Yeomans – resigned effective 21 May 2010;

(3) Mr J Flintoft - appointed independent non-executive director effective 15 January 2010;

(4) Mr Adam Kocks relocated from Australia to Hong Kong as part of his appointment as General Manager – Asia. His other short-term benefits comprise property costs, airfares and school fees as a result of his relocation.

(5) Mr G Mudford – appointed General Manager TLM effective 10 August 2009, redundant effective 2 September 2010.

For information on share options and performance share rights granted to key management personnel refer to pages 22 to 27.

Directors' Report (continued)

Remuneration Report (continued)

Key management personnel compensation (continued)

12 months ended 31 December 2009	Short-term employee benefits				Post-employment benefits			Share-based payments			
	Salary and fees \$	Cash Bonus \$	Non-monetary benefits \$	Other \$	Super-annuation \$	Other \$	Other long-term employee benefits \$	Termination benefits \$	Options / PSRs \$	Total \$	Consisting of options / PSRs %
Directors											
Graeme Yeomans	138,144	-	-	-	12,433	-	-	-	-	150,577	-
Stewart Downs ⁽¹⁾	423,006	-	-	-	55,185	-	-	-	39,631	517,822	7.65%
Shane Tanner ⁽²⁾	62,159	-	-	-	-	-	-	-	-	62,159	-
Craig Mathieson ⁽³⁾	25,432	-	-	-	2,289	-	-	-	-	27,721	-
Nir Pizmony ⁽⁴⁾	142,555	-	-	-	12,830	-	-	-	-	155,385	-
Antony Lynch ⁽⁵⁾	65,146	-	-	-	5,863	-	-	-	-	71,009	-
David Berry ⁽⁶⁾	129,670	-	-	-	68,327	-	-	-	-	197,997	-
Tony Oates ⁽⁷⁾	60,974	-	-	-	26,402	-	-	1,035,265	(50,249)	1,072,392	(4.69)%
	1,047,086	-	-	-	183,329	-	-	1,035,265	(10,618)	2,255,062	
Executives											
Garry Mudford ⁽⁸⁾	132,110	-	-	-	11,890	-	-	-	9,379	153,379	6.11%
Adam Kocks	208,073	63,000	-	16,214 ⁽¹⁴⁾	24,511	-	-	-	4,043	315,841	1.28%
Chris Loverso ⁽⁹⁾	154,446	59,500	-	-	25,924	-	-	94,219	(9,630)	324,459	(2.97)%
James Cody ⁽¹⁰⁾	38,391	-	-	-	3,455	-	-	-	-	41,846	-
Ray Dixon ⁽¹¹⁾	286,734	-	-	-	25,806	-	-	8,349	-	320,888	-
Paul Cannon ⁽¹²⁾	38,814	-	-	-	3,493	-	-	120,298	(36,269)	126,336	(28.71)%
Jeff Hunter ⁽¹³⁾	57,708	-	-	-	2,885	-	-	89,448	(10,220)	139,821	(7.31)%
	916,275	122,500	-	16,214	97,964	-	-	312,314	(42,697)	1,422,571	
	1,963,361	122,500	-	16,214	281,293	-	-	1,347,579	(53,315)	3,677,633	

(1) Mr S Downs – appointed CEO effective 19 February 2009 and Managing Director effective 25 August 2009;

(2) Mr S Tanner- appointed Independent non executive director effective 19 March 2009;

(3) Mr C Mathieson - appointed Non executive director effective 25 August 2009;

(4) Mr N Pizmony - appointed Executive director effective 25 August 2009;

(5) Mr A Lynch – resigned effective 22 October 2009;

(6) Mr D Berry - resigned effective 20 October 2009;

(7) Mr T Oates – resigned effective 19 February 2009;

(8) Mr G Mudford – appointed General Manager TLM effective 10 August 2009;

(9) Mr C Loverso – granted additional responsibility in respect of the Toy division across the company effective 1 May 2009. Resigned effective 23 November 2009

(10) Mr J Cody- appointed CFO effective 16 November 2009;

(11) Mr R Dixon- contract expired effective 1 December 2009;

(12) Mr P Cannon- redundant effective 25 February 2009;

(13) Mr J Hunter – resigned effective 19 February 2009; and

(14) Payout of annual leave entitlements upon transfer to Hong Kong.

Directors' Report (continued)

Remuneration Report (continued)

Share Options/Share Performance Right Plans

The Company's long-term incentive arrangements are designed to link executive compensation with growth in shareholder value through the grant of options or rights 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. Performance Share Rights are granted under the Funtastic Employee Performance Share Rights Plan (EPSR) which was established in 2005.

Participation in the ESOP and/or EPSR is offered to executives who are able to influence, or who have the potential to influence, the generation of shareholder wealth, as assessed against the LTI performance hurdles.

In general, eligible executives are offered annual grants under the plans which in total are designed to be the equivalent of up to 30% of their annual fixed compensation on an annualised basis.

Options and/or rights are granted for no consideration. The performance periods, performance hurdles and other terms and conditions are set by the Board for each grant of options or rights. The options or rights vest and become exercisable only when the specific criteria for each grant are met.

The Board's current policy does not allow Group executives to limit their exposure to risk in relation to their equity options without prior consultation and approval of the Board.

Share Options/Share Performance Rights granted

During the financial period, the following share-based payment arrangements were in existence:

Share-based payment	Series	Grant date	Expiry date	Grant date average fair value	Vesting date	Performance conditions
Share option	33	20/03/2008	02/09/2013	\$0.120	31/03/2011 & 31/08/2011	2
Share option	34	23/05/2008	02/09/2012	\$0.110	31/03/2010 & 31/08/2010	2
Share option	35	21/08/2009	10/08/2014	\$0.072	10/08/2009, 10/08/2010 & 10/08/2011	3
Share option	36	21/08/2009	10/08/2014	\$0.072	10/08/2009, 10/08/2010 & 10/08/2011	3
Share option	37	01/04/2010	01/04/2015	\$0.119	09/11/2010, 09/11/2011 & 09/11/2012	4
Share option	38	01/04/2010	01/04/2015	\$0.119	01/01/2011, 01/01/2012 & 01/01/2013	4
EPSR	35	03/07/2008	02/09/2013	\$0.390	03/07/2011	2

Options over unissued ordinary shares of Funtastic Limited granted during the financial period to key management personnel were as follows:

Share Option	Option series	Grant date	Options granted	Expiry date	Exercise Price	Grant date average fair value	% Forfeited	% Vested	Performance conditions
Executives									
James Cody	37	01/04/2010	1,000,000	01/04/2010	\$0.207	\$0.119	-	-	4
Adam Kocks	38	01/04/2010	750,000	01/04/2010	\$0.207	\$0.119	-	-	4

There were no PSR's issued during the seven months ended 31 July 2010.

The performance conditions attached to the Company's share options and EPSR's are outlined below:

Directors' Report (continued)

Remuneration Report (continued)

Share Options - Performance condition 2 (type 2)

In respect to one half of the options granted the following performance conditions are required to be achieved:

- (a) for 50% to vest the average annual diluted earnings per share (EPS) growth rate over a three year period, is required to be 11%pa;
- (b) for the remaining 50% to vest the average annual diluted EPS growth rate over a three year period, is required to be 15%pa;
- (c) if the average annual growth in diluted EPS growth over the three year period, is between 11%pa and 15%pa, the options will vest proportionately from 50% up to 100% of the entitlement; and
- (d) the employee being in continuous employment with the company until 31 March in the year following the three years.

In respect of the other half of the options granted the following performance conditions are required to be achieved:

- (a) for 50% to vest, Funtastic's relative total shareholders return (TSR) during the three year period is required to be at least equal to the TSR achieved by the company which is the median of the companies in the Comparator Group ranked by TSR performance (The Comparator Group comprises the companies in the S&P ASX small ordinaries index at the start of the period);
- (b) for the remaining 50% of the entitlement to vest, Funtastic's TSR has to be equal to or greater than the TSR of the company which is at the 75th percentile of the Comparator Group ranked by TSR performance during the three year period;
- (c) for each percentile increase in Funtastic's TSR ranking above the median ranking up to the 75th percentile, an additional 2% vests up to 100%; and
- (d) the employee being in continuous employment with the Company until 31 August in the year following the three years.

The amounts disclosed above for remuneration relating to ESOPs and EPSRs are the assessed fair values at the date they were granted to executives. Fair values have been determined in accordance with AASB 2 'Share Based Payments' where the value is determined at grant date, and are included in remuneration on a proportionate basis from grant date to vesting date. Details of the valuation method are disclosed in note 2(o).

Share Options - Performance condition 3 (type 3)

For each of the three years, one third of the options will vest on the anniversary of employment provided there is a 30% compound share growth based on the exercise price of 13.5 cents. In such case the following performance hurdles are required to be achieved:

- a) in year 1 the share price to be no less than 17 cents;
- b) in year 2 the share price to be no less than 23 cents; and
- c) in year 3 the share price to be no less than 30 cents.

If the performance hurdle rate is not achieved for any particular year the allocation of options for that year will still vest if the cumulative performance hurdle for the following year or years is achieved. In such cases the vested options roll over to the year when the cumulative performance hurdle is achieved.

Performance hurdles will be achieved if the requisite share price is maintained for any six months of the relevant 12 month period, based on the volume weighted average market price of the shares on the ASX for each month commencing on the first day of employment with Funtastic.

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.

Directors' Report (continued)

Remuneration Report (continued)

Share Options - Performance condition 4 (type 4)

Type 4 options are identical to type 3 options in every regard, except for the following exercise price and performance hurdles:

- For each of the three years, one third of the options will vest on the anniversary of employment provided there is a 30% compound share growth based on the exercise price of 20.7 cents. In such case the following performance hurdles are required to be achieved:
 - a) in year 1 the share price to be no less than 27 cents;
 - b) in year 2 the share price to be no less than 35 cents; and
 - c) in year 3 the share price to be no less than 45 cents.

The model inputs for options granted during the seven months ended 31 July 2010 are below (there were no EPSRs granted in 2010):

Option Number	37	38
Grant Date	01/04/2010	01/04/2010
Vesting Dates	09/11/10, 09/11/11 & 09/11/12	01/01/11, 01/01/12 & 01/01/13
Expiry Date	01/04/15	01/04/15
Exercise price	\$0.207	\$0.207
Stock Price at Issue	\$0.230	\$0.230
Expected Life (years)	4.4	4.4
Volatility	72%	72%
Risk free rate	5.48%	5.48%
Dividend yield	4.00%	4.00%
Vesting period (years)	N/A	N/A
Value	\$0.119	\$0.119

EPSR – Performance Condition 2 (type 2)

In respect to one half of the options granted the following performance conditions are required to be achieved:

- a) for 50% to vest, the diluted earnings per share (EPS) average increase in growth rate over three years, is required to be 11%pa;
- b) for the remaining 50% to vest the average diluted EPS growth rate over the three years, is required to be 15%pa;
- c) if the average annual increase in diluted EPS growth rate over three years, is between 11% pa and 15%pa, the options will vest proportionately from 50% up to 100% of the entitlement; and
- d) the employee being in continuous employment with the company until 31 March in the year following the three years.

In respect of the other half of the options granted the following performance conditions are required to be achieved:

- a) for 50% to vest, Funtastic's relative total shareholders return (TSR) during the three year period is required to be at least equal to the TSR achieved by the company which is the median of the companies in the Comparator Group ranked by TSR performance (The Comparator Group comprises the companies in the S&P ASX small ordinaries index at the start of the period);
- b) for the remaining 50% of the entitlement to vest, Funtastic's TSR has to be equal to or greater than the TSR of the company which is at the 75th percentile of the Comparator Group ranked by TSR performance during the three year period.

Directors' Report (continued)

Remuneration Report (continued)

The following table summarises the value of options/EPsRs granted, exercised or lapsed during the period to directors and executives:

	Options / EPsRs Granted	Options / EPsRs Exercised	Options / EPsRs Lapsed	Value of options and / or EPsRs included in remuneration for the period	Percentage of total remuneration for the period that consists of options / EPsRs
	Value at grant date (i)	Value at exercise date	Value at time of lapse (ii)		
	\$	\$	\$	\$	%
James Cody	119,000	-	-	15,109	7.52%
Adam Kocks	89,250	-	-	10,735	3.71%

- (i) The value of options/EPsRs granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards.
- (ii) The value of options/EPsRs lapsing during the period due to the failure to satisfy a vesting condition is determined assuming the vesting condition had been satisfied.

Shares provided on exercise of remuneration options

Details of ordinary shares in the Company, issued during the current period and prior year, as a result of the exercise of remuneration options to each director of Funtastic Limited and each of the key management personnel of the Group are set out below.

No amounts are unpaid or outstanding on any shares issued on the exercise of options.

No EPsR's or ESOP's were exercised during the current period or preceding year.

Option holdings

The number of options over ordinary shares in the Company held during the financial period/year by each director of Funtastic Limited and each of the key management personnel of the Group, including their related entities, are set out below.

7 months ended 31 July 2010	Balance at the start of the period	Granted during the period as remuneration	Exercised during the period	Other changes during the year i.e. forfeited/ lapsed	Balance at the end of the period	Vested and exercisable at the end of the period
Non-Executive Directors						
Shane Tanner	-	-	-	-	-	-
Graeme Yeomans	-	-	-	-	-	-
Craig Mathieson	-	-	-	-	-	-
Executive Directors						
Stewart Downs	4,200,000	-	-	-	4,200,000	-
Nir Pizmony	-	-	-	-	-	-
Executives						
Garry Mudford	1,000,000	-	-	-	1,000,000	-
Tim Anderson	-	-	-	-	-	-
Paul Wiegard	-	-	-	-	-	-
Adam Kocks	-	750,000	-	-	750,000	-
James Cody	-	1,000,000	-	-	1,000,000	-

Directors' Report (continued)

Remuneration Report (continued)

12 months ended 31 December 2009	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year i.e. forfeited/ lapsed	Balance at the end of the year	Vested and exercisable at the end of the year
Non-Executive Directors						
Graeme Yeomans	-	-	-	-	-	-
Shane Tanner ⁽¹⁾	-	-	-	-	-	-
Craig Mathieson ⁽²⁾	-	-	-	-	-	-
Anthony Lynch ⁽³⁾	-	-	-	-	-	-
David Berry ⁽⁴⁾	-	-	-	-	-	-
Executive Directors						
Stewart Downs ⁽⁵⁾	200,000	4,000,000	-	-	4,200,000	-
Nir Pizmony ⁽⁶⁾	-	-	-	-	-	-
Tony Oates ⁽⁷⁾	750,000	-	-	(750,000)	-	-
Executives						
Garry Mudford ⁽⁸⁾	-	1,000,000	-	-	1,000,000	-
Adam Kocks	-	-	-	-	-	-
Chris Loverso ⁽⁹⁾	-	-	-	-	-	-
James Cody ⁽¹⁰⁾	-	-	-	-	-	-
Ray Dixon ⁽¹¹⁾	-	-	-	-	-	-
Paul Cannon ⁽¹²⁾	157,143	-	-	(157,143)	-	-
Jeff Hunter ⁽¹³⁾	-	-	-	-	-	-

(1) Mr S Tanner- appointed Independent non executive director effective 19 March 2009;

(2) Mr C Mathieson- appointed Non executive director effective 25 August 2009;

(3) Mr A Lynch – resigned effective 22 October 2009;

(4) Mr D Berry- resigned effective 20 October 2009;

(5) Mr S Downs – appointed CEO effective 19 February 2009 and Managing Director effective 25 August 2009;

(6) Mr N Pizmony- appointed Executive director effective 25 August 2009;

(7) Mr T Oates – resigned effective 19 February 2009;

(8) Mr G Mudford – appointed General Manager TLM effective 10 August 2009, redundant effective 2 September 2010;

(9) Mr C Loverso – granted additional responsibility in respect of the Toy division across the company effective 1 May 2009. Resigned effective 23 November 2009;

(10) Mr J Cody- appointed CFO effective 16 November 2009;

(11) Mr R Dixon- contract expired effective 1 December 2009;

(12) Mr P Cannon - redundant effective 25 February 2009; and

(13) Mr J Hunter – resigned effective 19 February 2009.

Directors' Report (continued)

Remuneration Report (continued)

Performance Share Right holdings

The number of Performance Share Rights held during the financial period/year by each of the key management personnel of the consolidated entity, including their related entities, is set out below.

7 months ended 31 July 2010	Balance at the start of the period	Granted during the period as remuneration	Exercised during the period	Other changes during the period i.e. forfeited/ lapsed	Balance at the end of the period	Vested and exercisable at the end of the period
Executives						
Stewart Downs	-	-	-	-	-	-
Garry Mudford ⁽²⁾	-	-	-	-	-	-
Adam Kocks	20,000	-	-	-	20,000	-
James Cody	-	-	-	-	-	-

12 months ended 31 December 2009	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year i.e. forfeited/ lapsed	Balance at the end of the year	Vested and exercisable at the end of the year
Executives						
Stewart Downs ⁽¹⁾	-	-	-	-	-	-
Garry Mudford ⁽²⁾	-	-	-	-	-	-
Adam Kocks	20,000	-	-	-	20,000	-
Chris Loverso ⁽³⁾	20,000	-	-	(20,000)	-	-
James Cody ⁽⁴⁾	-	-	-	-	-	-
Ray Dixon ⁽⁵⁾	-	-	-	-	-	-
Paul Cannon ⁽⁶⁾	60,000	-	-	(60,000)	-	-
Tony Oates ⁽⁷⁾	-	-	-	-	-	-
Jeff Hunter ⁽⁸⁾	55,000	-	-	(55,000)	-	-

(1) Mr S Downs – appointed CEO effective 19 February 2009 and Managing Director effective 25 August 2009;

(2) Mr G Mudford – appointed General Manager TLM effective 10 August 2009, redundant effective 2 September 2010;

(3) Mr C Loverso – granted additional responsibility in respect of the Toy division across the company effective 1 May 2009. Resigned effective 23 November 2009;

(4) Mr J Cody- appointed CFO effective 16 November 2009;

(5) Mr R Dixon- contract expired effective 1 December 2009;

(6) Mr P Cannon - redundant effective 25 February 2009;

(7) Mr T Oates – resigned effective 19 February 2009; and

(8) Mr J Hunter – resigned effective 19 February 2009.

Directors' Report (continued)

Remuneration Report (continued)

Share holdings

The numbers of shares in the Company held during the financial period/year by each key management personnel of the consolidated entity, including their related entities, are set out below.

7 months ended 31 July 2010	Balance at the start of the period	Received during the period on the exercise of options	Shares purchased during the period	Received as consideration on acquisition of business	Shares sold during the period	Balance at the end of the period or date of retirement / resignation
Directors						
Shane Tanner	-	200,000	-	-	-	200,000
Graeme Yeomans	500,000	-	-	-	-	500,000
Stewart Downs	1,642,890	-	-	-	-	1,642,890
Craig Mathieson	87,880,947	-	3,150,365	-	-	91,031,312
Nir Pizmony	16,855,742	-	-	-	-	16,855,742
James Flintoft ⁽¹⁾	1,350,848	-	-	-	-	1,350,848
Executives						
Adam Kocks	30,000	-	-	-	-	30,000
Tim Anderson	1,555,870	-	-	-	-	1,555,870
Paul Wiegard	1,555,870	-	-	-	-	1,555,870
James Cody	-	-	-	-	-	-
Garry Mudford	250,000	-	-	-	-	250,000

12 months ended 31 December 2009	Balance at the start of the year	Received during the year on the exercise of options	Shares purchased during the year	Received as consideration on acquisition of business	Shares sold during the year	Balance at the end of the year or date of retirement / resignation
Directors						
Graeme Yeomans	250,000	-	250,000	-	-	500,000
Shane Tanner ⁽¹⁾	-	-	-	-	-	-
Stewart Downs	821,445	-	821,445	-	-	1,642,890
Craig Mathieson ⁽¹⁾	1,570,219	-	86,310,728	-	-	87,880,947
Nir Pizmony ⁽¹⁾	6,855,742	-	-	10,000,000	-	16,855,742
Antony Lynch	69,380	-	70,186	-	-	139,566
David Berry	155,109	-	120,000	-	-	275,109
Tony Oates	818,938	-	-	-	-	818,938
Executives						
Ray Dixon	-	-	30,000	-	-	30,000
Adam Kocks	-	-	127,000	-	(97,000)	30,000
Chris Loverso	-	-	75,000	-	-	75,000
James Cody	-	-	-	-	-	-
Garry Mudford	-	-	250,000	-	-	250,000

(1) Represents shares owned prior to being appointed to the Company

Directors' Report (continued)

Remuneration Report (continued)

Service Agreements

Remuneration and other terms of employment for the Chairman, Managing Director, Non-Executive Directors, Chief Executive Officer and the other executives are formalised in service agreements/employment letters. Each of these allow for the provision of performance-related cash bonuses, other benefits including car allowances and participation, when eligible, in the Funtastic Limited Employee Share Option Plan and/or the Funtastic Limited Employee Performance Share Rights Plan.

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

Shane Tanner – Chairman & Independent Non-executive Director – (appointed Chairman 21 May 2010)

- Term of the agreement - full-time permanent and no specific term.
- Payment of a termination benefit on early termination by the employer is not applicable.

Graeme Yeomans - Chairman & Independent Non-executive Director – (resigned effective 21 May 2010)

- Term of the agreement - full-time permanent and no specific term.
- Payment of a termination benefit on early termination by the employer is not applicable.

Stewart Downs – Managing Director & Chief Executive Officer

- Term of the agreement - full-time permanent and no specific term.
- Payment of termination benefit on early termination by the employer; other than for gross misconduct, equal to 3 months' base salary.
- Notice period 6 months.

Craig Mathieson – Non-executive Director

- Term of the agreement - full-time permanent and no specific term.
- Payment of a termination benefit on early termination by the employer is not applicable.

Nir Pizmony – Executive Director

- Term of the agreement - full-time permanent and no specific term.
- Payment of termination benefit on early termination by the employer; other than for gross misconduct, equal to 3 months' base salary.
- Notice period 3 months.

James Flintoft – Executive Director - (appointed 15 January 2010)

- Term of the agreement - full-time permanent and no specific term.
- Payment of a termination benefit on early termination by the employer is not applicable.

Garry Mudford - General Manager TLM – (redundant 2 September 2010)

- Term of the agreement - full-time permanent and no specific term.
- Payment of termination benefit on early termination by the employer; other than for gross misconduct, equal to 3 months base salary.
- Notice period 3 months.

James Cody - Chief Financial Officer & Company Secretary

- Term of the agreement - full-time permanent and no specific term.
- Payment of termination benefit on early termination by the employer; other than for gross misconduct, equal to 3 months base salary.
- Notice period 3 months.

Adam Kocks - General Manager Asia

- Term of the agreement – full-time permanent and no specific term.
- Payment of termination benefit on early termination by the employer; other than for gross misconduct, equal to 3 months fixed base salary.
- Notice period 3 months.

Tim Anderson – Joint General Manager Entertainment

- Term of the agreement – full-time permanent from 9 May 2006 to 9 May 2011.
- Payment of termination benefit on early termination by the employer; other than for gross misconduct, equal to 3 months base salary.
- Notice period 3 months.

Paul Wiegard – Joint General Manager Entertainment

- Term of the agreement – full-time permanent from 9 May 2006 to 9 May 2011.
- Payment of termination benefit on early termination by the employer; other than for gross misconduct, equal to 3 months base salary.
- Notice period 3 months.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 41 to the financial statements.

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 (Clth).

The directors are of the opinion that the services as disclosed in note 41 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit, Risk and Compliance Committee, for the following reasons:


- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 (Clth) is set out on page 29 of this annual report.

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors,



Shane Tanner

Chairman of the Board

Melbourne

30 September 2010

Auditor's Independence Declaration



Deloitte Touche Tohmatsu
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The Board of Directors
Funtastic Limited
Level 2, Tower 2, Chadstone Place
1341 Dandenong Road,
CHADSTONE VIC 3148

30 September 2010

Dear Board Members,

Funtastic Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Funtastic Limited.

As lead audit partner for the audit of the financial statements of Funtastic Limited for the financial period ended 31 July 2010, 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.

Yours sincerely


DELOITTE TOUCHE TOHMATSU

Tom Imbesi
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

Independent Auditor's Report



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Independent Auditor's Report to the members of Funtastic Limited

Report on the Financial Report

We have audited the accompanying financial report of Funtastic Limited, which comprises the statement of financial position as at 31 July 2010, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the period ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the financial period as set out on pages 32 to 102.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Funtastic Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Member of
Deloitte Touche Tohmatsu

Liability limited by a scheme approved under Professional Standards Legislation.



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 consolidated entity's financial position as at 31 July 2010 and of its performance for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 28 of the directors' report for the period ended 31 July 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Funtastic Limited for the period ended 31 July 2010, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in dark ink, appearing to read "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in dark ink, appearing to read "Tom Imbesi".

Tom Imbesi
Partner
Chartered Accountants
Melbourne, 30 September 2010

Directors' Declaration

The directors declare that:

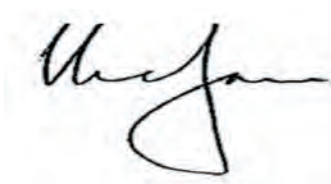
- (a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements;
- (c) in the directors' opinion, the attached financial statements and Notes thereto are in accordance with the Corporations Act 2001 (Clth), including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and
- (d) the directors have been given the declarations required by section 295A of the Corporations Act 2001 (Clth).

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418 and has entered into a deed of cross guarantee as contemplated in that order. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 34 to the financial statements will, as a Group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to section 295(5) of the Corporations Act 2001 (Clth).

On behalf of the Directors,



Shane Tanner

Chairman of the Board

Melbourne

30 September 2010

Statement of Comprehensive Income for the seven months ended 31 July 2010

	Note	7 months ended 31 July 2010 \$'000	12 months ended 31 December 2009 \$'000
Continuing operations			
Revenue	5	111,052	229,933
Cost of goods sold		(72,640)	(174,987)
Gross profit		38,412	54,946
Warehouse and distribution expenses		(10,103)	(17,514)
Marketing and selling expenses		(18,535)	(44,894)
Administration expenses		(9,076)	(13,509)
Earnings before interest, taxation, amortisation and restructuring costs (EBITA)		698	(20,971)
Finance costs	10	(3,594)	(8,751)
Amortisation expenses		(327)	(1,250)
Impairment and restructuring costs	7	-	(20,245)
Loss before income tax	8	(3,223)	(51,217)
Income tax benefit/(expense)	9	(356)	9,553
Loss for the period/year from continuing operations		(3,579)	(41,664)
Discontinued operations			
(Loss)/profit for the period from discontinued operations	6	-	(16,389)
(Loss)/profit for the year		(3,579)	(58,053)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		35	(363)
Gain/(loss) on cash flow hedges transferred from/taken to equity		(70)	1,204
Gain on equity settled benefits transferred from/taken to equity		137	13
Other comprehensive income for the period/year (net of tax)		102	854
Total comprehensive income attributable to members of Funtastic		(3,477)	(57,199)
Earnings per share			
		Cents	Cents
From continuing and discontinued operations:			
Basic (cents per share)	30	(1.05)	(25.0)
Diluted (cents per share)	30	(1.05)	(25.0)
From continuing operations:			
Basic (cents per share)	30	(1.05)	(17.9)
Diluted (cents per share)	30	(1.05)	(17.9)

Above statement of comprehensive income should be read in conjunction with the accompanying Notes.

Statement of Financial Position as at 31 July 2010

	Note	31 July 2010 \$'000	31 December 2009 \$'000
Current Assets			
Cash	36	972	2,191
Trade and other receivables	11	38,563	42,276
Inventories	12	29,469	31,018
Other	13	25,522	25,954
Current tax assets	14	-	187
Other financial assets	15	4,835	5,009
Total Current Assets		99,361	106,635
Non-Current Assets			
Property, plant and equipment	16	2,948	2,937
Goodwill	17	73,608	73,608
Other intangibles	18	2,822	2,722
Deferred tax assets	9	14,374	16,458
Other financial assets	19	1,606	1,619
Total Non-Current Assets		95,358	97,344
Total Assets		194,719	203,979
Current Liabilities			
Trade payables	21	11,675	10,975
Borrowings	22	-	6,901
Provisions	23	1,706	3,416
Deferred purchase consideration	24	2,367	10,280
Other	25	17,728	27,112
Current tax liabilities	14	97	-
Other financial liabilities	26	971	597
Total Current Liabilities		34,544	59,281
Non-Current Liabilities			
Borrowings	22	78,876	55,003
Provisions	23	147	453
Deferred tax liabilities	9	6,775	8,977
Deferred purchase consideration	24	-	2,367
Other	25	1,117	1,161
Total Non-Current Liabilities		86,915	67,961
Total Liabilities		121,459	127,242
Net Assets		73,260	76,737
Equity			
Issued capital	27	159,377	159,377
Accumulated losses	28	(85,964)	(82,385)
Reserves	29	(153)	(255)
Total Equity		73,260	76,737

The above statement of financial position should be read in conjunction with the accompanying Notes.

Statement of Changes in Equity for the seven months ended 31 July 2010

	Fully Paid Ordinary Shares \$'000	Accumulated Losses \$'000	Foreign Currency Translation Reserve \$'000	Equity-settled Benefits Reserve \$'000	Cash Flow Hedging Reserve \$'000	Total \$'000
Balance at 1 January 2009	137,202	(24,332)	(720)	1,224	(1,613)	111,761
Loss for the year	-	(58,053)	-	-	-	(58,053)
Other comprehensive (loss)/gain	-	-	(363)	13	1,204	854
Total comprehensive income	-	(58,053)	(363)	13	1,204	(57,199)
Share issues to NSR (HK) Ltd	1,400	-	-	-	-	1,400
Rights issue	20,775	-	-	-	-	20,775
Balance at 31 December 2009	159,377	(82,385)	(1,083)	1,237	(409)	76,737
Balance at 1 January 2010	159,377	(82,385)	(1,083)	1,237	(409)	76,737
Loss for the period	-	(3,579)	-	-	-	(3,579)
Other comprehensive (loss)/gain	-	-	35	137	(70)	102
Total comprehensive income	-	(3,579)	35	137	(70)	(3,477)
Balance at 31 July 2010	159,377	(85,964)	(1,048)	1,374	(479)	73,260

The above statement of changes in equity should be read in conjunction with the accompanying Notes.

Statement of Cash Flows For the seven months ended 31 July 2010

		7 months ended 31 July 2010 \$'000	12 months ended 31 December 2009 \$'000
	Note		
Cash Flows from Operating Activities			
Receipts from customers		126,044	312,808
Payments to suppliers and employees		(129,144)	(323,988)
Cash generated from operations		(3,100)	(11,180)
Income taxes received/(paid)		(233)	1,802
Interest and other costs of finance paid		(2,786)	(8,063)
Net Cash Outflow from Operating Activities	36	(6,119)	(17,441)
Cash Flows from Investing Activities			
Interest received		56	27
Payments for acquisition of businesses		(10,426)	(2,365)
Payments for property, plant and equipment		(1,118)	(2,260)
Payments for other intangible assets		(228)	(1,316)
Proceeds from sale of property, plant and equipment		149	16
Proceeds from sale of business		-	9,687
Net Cash (Outflow)/Inflow from Investing Activities		(11,567)	3,789
Cash Flows from Financing Activities			
Proceeds from issue of shares		-	22,342
Proceeds from borrowings		16,764	-
Repayment of borrowings		-	(10,400)
Borrowings transaction costs		(300)	(300)
Share issue transaction costs		-	(1,568)
Net Cash Inflow from Financing Activities		16,464	10,074
Net Decrease in Cash Held		(1,222)	(3,578)
Cash and cash equivalents at the beginning of the period/year		2,191	5,769
Effects of exchange rate changes on the balance of cash held in foreign currencies	3	3	-
Cash and cash equivalents at the end of the period/year	36	972	2,191

Notes to the Financial Statements 31 July 2010

NOTE 1: Adoption of new and revised accounting standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

The adoption of these new and revised Standards and Interpretations did not have any material financial impact on the amounts recognised in the financial statements of the Group, however they have impacted the disclosures presented in the financial statements.

At the date of authorisation of the financial report, the following relevant Standards and Interpretations were issued but not yet effective:

- (i) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010 2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective for annual periods beginning on or after 1 July 2013 but may be early adopted for annual reporting period beginning on or after 1 July 2009)
- (ii) AASB 2010 4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 July 2011)
- (iii) AASB 2009 5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 January 2010)
- (iv) AASB 2009 8 Amendments to Australian Accounting Standards – Group Cash Settled Share based Payment Transactions [AASB2] (effective from 1 January 2010)
- (v) AASB 2009 10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (effective for annual reporting periods beginning on or after 1 February 2010)
- (vi) Revised AASB 124 Related Party Disclosures and AASB 2009 12 Amendments to Australian Accounting Standards (effective for annual reporting periods beginning on or after 1 January 2011)
- (vii) AASB 9 Financial Instruments and AASB 2009 11 Amendments to Australian Accounting Standards arising from AASB 9 (effective for annual reporting periods beginning on or after 1 January 2013)
- (viii) AASB 2009 14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement (effective from 1 January 2011)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

Notes to the Financial Statements 31 July 2010

NOTE 2: Significant accounting policies

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001 (Clth), Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and Notes of the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 30 September 2010.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the director's report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for derivative financial instruments that have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise stated.

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

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as "the Group" in these financial statements). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.

(b) Income Tax

(i) Current 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.

(ii) Deferred tax

Deferred tax is accounted for using the balance sheet liability method. 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.

(iii) Current and deferred tax for the period

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

(iv) Tax Consolidation

The company and its wholly-owned Australian resident entities are part of a tax-consolidated Group under Australian taxation law. Funtastic Limited is the head entity in the tax-consolidated Group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidation Group are recognised in the separate financial statements of the members of the tax-consolidated Group using the "separate taxpayer within Group" approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated Group, amounts are recognised as payable to or receivable by the company and each member of the Group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated Group in accordance with the arrangement. Further

information about the tax funding arrangement is detailed in Note 9 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.

(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

Notes to the Financial Statements 31 July 2010

NOTE 2: Significant accounting policies (continued)

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 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 and cash equivalents

Cash and cash equivalents includes cash on hand, deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(e) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, discounts, rebates, and GST paid.

Revenue from the sale of goods is recognised when a Group entity has delivered products to the customer. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

Commission revenue is recorded when the consideration is receivable based on when the goods have been dispatched to a customer by the third party.

Interest income is recognised on a time proportionate basis using the effective interest rate method.

Management fee revenue is recognised in accordance with the entitlement to fees for the management services provided and is brought to account on an accrual basis.

(f) Property, Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is calculated on a straight line or diminishing value basis to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over the shorter of its expected useful life and the lease term. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The cost of improvements to or on leasehold properties is amortised over the estimated useful life of the improvement to the Group.

The expected useful lives are as follows:

Plant and equipment:

2.5 to 10 years

Leasehold improvements:

5 Years

(g) Loans and receivables

Trade, loans and other receivables, are measured at amortised cost, less allowance for doubtful debts, rebates and settlement discounts, where appropriate.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is recognised in the income statement.

(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. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

(i) Trade payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year for which an invoice has been processed through the Group's payables system and the amount remains unpaid. The amounts are unsecured and usually paid within 30 days of recognition.

(j) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST. 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 balance sheet.

Cash flows are included in the cash flow statement 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.

(k) 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 lower of fair value and the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense, so as to achieve a constant rate of interest on the remaining balance of the liability.

The leased assets are amortised on a straight line basis over the term of the lease, or where it is likely that the economic entity will obtain

Notes to the Financial Statements 31 July 2010

NOTE 2: Significant accounting policies (continued)

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.

Operating lease payments are charged to the profit and loss account on a straight line basis over the period of the lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(l) Share-based payments

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

The fair value of options and performance share rights granted under the Funtastic Executive Share Option Plan and Funtastic Employee Performance Share Rights 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 an appropriate 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, total shareholder performance hurdles 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.

The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2002 and that vested after 1 January 2005. No amount has been recognised in the financial statements in respect of the other equity-settled share-based payments.

(m) Borrowings

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly

discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(n) 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.

(o) Employee benefits

(i) Wages and Salaries and Annual Leave

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave where it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

(ii) Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(iii) 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.

(iv) 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.

(p) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 Income Taxes and AASB 119 Employee Benefits respectively;

Notes to the Financial Statements 31 July 2010

NOTE 2: Significant accounting policies (continued)

- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with AASB 2 Share-based Payment; and
- assets (or disposal Groups) that are classified as held for sale in accordance with AASB 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

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.

(q) Intangible assets

(i) Intangible assets cost

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred. Amortisation of the Group's intangible assets is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(r) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more

frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGUs), or Groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or Groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or Group of CGUs) is less than the carrying amount of the CGU (or Groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or Groups of CGUs) and then to the other assets of the CGU of CGUs pro-rata on the basis of the carrying amount of each asset in the CGU (or CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in subsequent periods.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(s) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward contracts comprising foreign exchange forward contracts and options; and interest rate swaps. Further details of derivative financial instruments are disclosed in note 37 to the financial statements.

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 at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), or hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

The fair value of hedging derivatives is classified as a current asset or current liability if the remaining maturity of the hedge relationship is less than 12 months and as a non current asset or a non current liability if the remaining maturity of the hedge relationship is more than 12 months.

(i) Hedge accounting

The Group designates certain hedging instruments, derivatives in respect of foreign currency, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 37 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the statement of changes in equity.

(ii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are

Notes to the Financial Statements 31 July 2010

NOTE 2: Significant accounting policies (continued)

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 statement of comprehensive income.

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.

(t) Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of financial asset is under contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as fair value through profit or loss (FVTPL) which are initially measured at fair value.

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the statement of comprehensive income. Fair value is determined in the manner described in note 37.

Convertible notes receivable are classified as held to maturity investments. Held to maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

(i) Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of

the allowance account are recognised in profit or loss.

If in a subsequent period the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(u) Financial instruments issued by the Group

• Equity instruments

Equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. Transaction costs arising on the issue of equity instruments are recognised directly in contributed equity.

- Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner set out in note 37.

• Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(v) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is a best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligations, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount if the receivable can be measured reliably.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity

Notes to the Financial Statements 31 July 2010

NOTE 2: Significant accounting policies (continued)

(w) Onerous contracts

The Group enters into royalty contracts with key suppliers. The terms of the royalty agreements require minimum level of royalty payments to be offset against the minimum guarantees paid at the start of the contract. An onerous contract is deemed to exist for the Group if, after calculating the net contribution relating to the products sold under the specific contract, there is a shortfall between the minimum guarantee and the actual royalty derived (or forecast to arrive in future periods) from the reported sales. Net contribution is calculated after taking into account net sales revenue, cost of goods sold, applicable royalties and direct selling costs. If the royalty shortfall cannot be recovered from the resulting net contribution a provision for onerous contracts is made to the statement of comprehensive income.

(x) Impairment of other tangible and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

(y) Non-current assets held for sale

Non-current assets and disposal Groups classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather through continued use. This condition is regarded as met only when the sale is highly probable and non-current assets (or disposal Group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal Groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Notes to the Financial Statements 31 July 2010

NOTE 3: Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- **Estimated impairment of goodwill and other non-current assets**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2 (r). The recoverable amount of each cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 17 for details of these assumptions.

- **Recoverability of prepaid and committed royalty and license agreements**

In order to secure product distribution rights the Group is required to prepay for royalties relating to licensed products. The Group reviews the recoverability of prepaid royalty and license agreements (Note 13), on an annual basis. The Group takes into account current and projected market sell through in assessing the recoverability of royalty commitments.

- **Settlement of licence audits**

Product licence agreements contain audit rights for licensors. At year end in respect of licensor audits the Group has provided for the best estimate of amounts payable. The final amounts payable will be subject to negotiation with the licensor and may differ to the amounts provided.

- **Useful lives of intangible assets**

As described in note 2(q), the Group reviews the estimated lives of intangible assets at the end of each annual reporting period and the financial impact of any change is recognised prospectively in the statement of comprehensive income. During the financial period, the directors determined that the useful life of the Group's computer software should be lengthened to reflect the longer-term usage being experienced by the Group.

The financial effect of this reassessment, assuming the assets are held until the end of their estimated useful lives, is to (decrease)/increase the Group amortisation expense in the current period and for the next 3 years, by the following amounts:

Period/Year Ended	\$'000
31 July 2010	(305)
31 July 2011	(451)
31 July 2012	(260)
31 July 2013	216

NOTE 4: Segment information

Under the requirements of AASB 8 Operating Segments, information reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of performance is more specifically focused on the following categories of products:

- Toys and Lifestyle Merchandise
- International
- Entertainment
- Other

The Toys and Lifestyle Merchandise reportable segment distributes licensed toys, sporting equipment, nursery equipment and confectionary. The International reportable segment designs and sources unique product offerings for worldwide distribution. The Entertainment reportable segment distributes licensed DVD and interactive merchandise. The Other reportable segment incorporates all other trading operations.

Discontinued Operations

Prior to discontinuing, the Softgoods reportable segment distributed licensed footwear, manchester and apparel. Funtastic Limited committed to a formal disposal process of the Softgoods business from June 2009. The sale of the Footwear division of Softgoods was completed on 30 June 2009, the sale of the Manchester division of Softgoods was completed on 31 July 2009 and the sale of the Apparel division of Softgoods was completed on 31 August 2009 and these transactions are set out in more detail in note 6.

Also included in discontinued operations is the distribution of Toys and Lifestyle Merchandise in New Zealand, prior to the Group's discontinuance of that business. Funtastic Limited was committed to the sale of the Toys New Zealand business from 26 June 2009 and the sale of New Zealand Toys business was completed on 1 July 2009.

Information regarding these segments are presented on the next page.

Notes to the Financial Statements 31 July 2010

NOTE 4: Segment information (continued)

The following is an analysis of the Group's revenue and results by reportable operating segment for the financial period/year under review:

	Note	Revenue		Segment profit/(loss)	
		7 months ended 31 July 2010	12 months ended 31 December 2009	7 months ended 31 July 2010	12 months ended 31 December 2009
		\$'000	\$'000	\$'000	\$'000
Continuing operations					
Toys and Lifestyle Merchandise		67,285	134,592	6,567	4,316
International		4,856	8,529	(877)	113
Entertainment		35,363	75,455	3,779	10,987
Other		2,462	9,671	(270)	283
		109,966	228,247	9,199	15,699
Central administration		-	-	(8,501)	(36,670)
Finance costs		-	-	(3,594)	(8,751)
Amortisation		-	-	(327)	(1,250)
Other revenue		1,086	1,686	-	-
Impairment & restructuring	7	-	-	-	(20,245)
Continuing segment revenue and loss before income tax		111,052	229,933	(3,223)	(51,217)
Discontinued operations					
Softgoods		-	39,018	-	(5,904)
Toys New Zealand		-	6,009	-	375
Remeasurement of Softgoods to fair value less costs to sell	6	-	-	-	(2,133)
Remeasurement of Toys New Zealand to fair value less costs to sell	6	-	-	-	(10,381)
Discontinued segment revenue and loss for the period/year		-	45,027	-	(18,043)
Consolidated segment revenue and loss before tax		111,052	274,960	(3,223)	(69,260)
Income tax benefit/(expense) (continuing and discontinued operations)		-	-	(356)	11,207
Consolidated segment revenue and loss after tax for the period/year		111,052	274,960	(3,579)	(58,053)

Notes to the Financial Statements 31 July 2010

NOTE 4: Segment information (continued)

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period.

Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, share of profits of associates, investment revenue and finance costs, income tax expense, and gains or losses on disposal of associates and discontinued operations. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Geographical Information

The Group operates in three principal geographical areas – Australia; New Zealand; and Hong Kong. The Group's revenue from external customers and information by geographical location is as follows:

	Revenue from External Customers	
	7 months ended 31 July 2010 \$'000	12 months ended 31 December 2009 \$'000
Australia	104,138	258,185
New Zealand	4,840	10,592
Hong Kong	2,074	6,183
	111,052	274,960

Information about major customers

Included in revenues of Toys and Lifestyle Merchandise of \$67,285 thousand (2009: \$134,592 thousand), are revenues of approximately \$48,688 thousand (2009: \$90,983 thousand), which arose from sales to the Group's four largest customers. Included in revenues of Entertainment and DVD of \$35,363 thousand (2009: \$75,455 thousand) are revenues of approximately \$19,987 thousand (2009: \$40,305 thousand) which arose from sales to the Group's four largest customers.

NOTE 5: Revenue

	Note	7 months ended 31 July 2010 \$'000	12 months ended 31 December 2009 \$'000
Revenue from the sale of goods			
Gross revenue		122,473	257,037
Less settlement discounts and rebates		(12,507)	(28,790)
		109,966	228,247
Interest from bank deposits		-	10
Interest from convertible notes		72	72
Commissions received		392	106
Other		622	1,498
		1,086	1,686
Continuing Operations		111,052	229,933
Discontinued Operations	6	-	45,027
		111,052	274,960

Notes to the Financial Statements 31 July 2010

NOTE 6: Discontinued operations

Disposal of the Toys New Zealand business – Year Ended 31 December 2009

On 26 June 2009, the Board of Directors announced a plan to dispose of the Group's Toys New Zealand business, which involves the distribution of toys and lifestyle merchandise in New Zealand. The disposal is consistent with the Group's long-term strategy to focus its activities in the Australian Toys, Lifestyle Merchandise and Entertainment markets and in other international markets where the Group is in the process of securing distribution rights.

A binding sale agreement for the New Zealand Toys business was signed on 14 July 2009 and was completed by 31 July 2009. The Group recognised a loss on divestment of \$10,381,000 during the prior financial year.

Disposal of the Softgoods business – Year Ended 31 December 2009

On 26 June 2009, the Board of Directors announced a plan to dispose of the Group's Softgoods business, which involves the distribution of licensed footwear and apparel. The disposal is consistent with the Group's long-term strategy as explained above. Binding sale agreements in relation to individual operational units that make up the Softgoods business were completed by 31 August 2009. The Group recognised a loss on divestment of \$2,133,000 during the prior financial year.

The combined results of the discontinued operations (i.e. Toys New Zealand and Softgoods businesses) included in the statement of comprehensive income, are presented below:

	Note	7 months ended 31 July 2010 \$'000	12 months ended 31 December 2009 \$'000
Profit for the year from discontinued operations			
Revenue		-	44,940
Other income		-	87
	5	-	45,027
Expenses			
Warehouse and distribution		-	(41,174)
Marketing and selling		-	(8,861)
Administration		-	(520)
		-	(50,555)
Loss before tax		-	(5,528)
Attributable income tax benefit		-	1,654
Loss after income tax		-	(3,874)
Loss on re-measurement to fair value less costs to sell		-	(12,515)
Loss for the period/year from discontinued operations		-	(16,389)
Cash flows from discontinued operations			
Net cash outflow from operating activities		-	(3,874)
Net cash inflow from investing activities		-	7,571
Net cash outflow from financing activities		-	(10,021)
Net cash flows		-	(6,324)

Notes to the Financial Statements 31 July 2010

NOTE 7: Impairment and restructuring costs

The following impairment and restructuring costs are included within the loss from continuing operations in the statement of comprehensive income for the seven months ended 31 July 2010 (2009: 12 months ended 31 December):

	7 months ended 31 July 2010 \$'000	12 months ended 31 December 2009 \$'000
Continuing Operations		
ABC Group related:		
Provision for restructure costs – Australia & USA	-	107
Total ABC Group related	-	107
Goodwill impairment:		
Goodwill impairment – Educational Toys & furniture	-	14,689
Goodwill impairment – Nursery	-	2,839
Total Goodwill impairment	-	17,528
Investment in controlled entities	-	-
Other:		
Impairment of prepaid product costs - Nursery	-	313
Other Corporate restructuring costs	-	2,297
Total Other	-	2,610
Total impairment and restructuring costs	-	20,245

Impairment – Educational toys and furniture – Year Ended 31 December 2009

During the prior year, the Group transferred the management and operations of the Educational toys and furniture division to its Toys and Lifestyle Merchandise business. Additionally, in accordance with Group accounting policy, the Group assessed the goodwill attached to the business for impairment. The recoverable amount of the Educational toys and furniture division was based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five year period and using a discount rate of 21.2% which represents the estimated weighted average cost of capital for the division as determined. Cash flow projections during and beyond the budget period were based on normalised gross margins and an average growth rate of 0%. This resulted in the recognition of goodwill impairment loss for the Educational toys and furniture business of \$14,689,000.

Impairment – Nursery – Year Ended 31 December 2009

During the prior year, the Group transferred the management and operations of the Nursery division to its Toys and Lifestyle Merchandise business. Additionally, in accordance with Group accounting policy, the Group assessed the goodwill attached to the business for impairment. The recoverable amount of the Nursery division was based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five year period and using a discount rate of 21.2% which represents the estimated weighted average cost of capital for the division as determined. Cash flow projections during and beyond the budget period were based on normalised gross margins and an average growth rate of 0%. This resulted in the recognition of goodwill impairment loss for the Nursery business of \$2,839,000 and an impairment of prepaid product costs of the Nursery Cash Generating Unit (CGU) of \$313,000.

Notes to the Financial Statements 31 July 2010

NOTE 8: Loss for the period/year

Loss for the period/year from continuing operations has been arrived at after charging (crediting):

	7 months ended 31 July 2010 \$'000	12 months ended 31 December 2009 \$'000
Continuing Operations		
Impairment losses on financial assets		
Impairment loss recognised on trade receivables (note 11)	97	1,328
Depreciation and amortisation expense		
Depreciation of plant & equipment (note 16)	786	1,575
Amortisation of leasehold improvements (note 16)	145	226
Amortisation of other intangible assets (note 18)	128	939
Amortisation of product development costs	54	85
Total depreciation and amortisation expense	1,113	2,825
Research and development costs expensed as incurred	519	742
Employee benefits expense		
Post employment benefits:		
Defined contribution plans	995	1,914
Share-based payments:		
Equity-settled share-based payments	137	11
Termination benefits	325	823
Other employee benefits	15,180	27,418
Total employee benefits expense	16,637	30,166

Notes to the Financial Statements 31 July 2010

NOTE 9: Income tax

	7 months ended 31 July 2010 \$'000	12 months ended 31 December 2009 \$'000
(a) Income tax expense		
Tax expense/(benefit) comprises:		
Current tax expense in respect of the current period/year	519	-
Deferred tax expense/(benefit) relating to the origination and reversal of temporary differences	452	(9,553)
Deferred tax reclassified from equity to profit or loss	(615)	-
	356	(9,553)
Total tax (benefit)/expense relating to continuing operations	356	(9,553)
(b) Income Tax recognised in profit or loss		
The (benefit)/expense for the period/year can be reconciled to the accounting loss as follows:		
Loss from continuing operations	(3,223)	(51,217)
Tax (benefit)/expense at the Australian tax rate of 30% (2009: 30%)	(967)	(15,365)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Effect of revenue that is exempt from taxation	-	(27)
Expenses that are not deductible in determining taxable loss	121	5,697
Other (including temporary differences)	1,202	142
Income tax (benefit)/expense recognised in profit or loss	356	(9,553)

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. The Group also operates in New Zealand and Hong Kong and where the corporate tax rates are 30% and 17.5% respectively.

Notes to the Financial Statements 31 July 2010

NOTE 9: Income tax (continued)

	7 months ended 31 July 2010 \$'000	12 months ended 31 December 2009 \$'000
(c) Amounts recognised directly in equity		
Deferred Tax Asset/(Liability):		
Financial instruments treated as cash flow hedges	13	(602)
(d) Current tax balances		
Current tax assets and liabilities		
Income tax receivable from tax office		
Other	-	187
Income tax payable to tax office		
Other	97	-
(e) Deferred tax balances		
Deferred tax assets comprises:		
Revenue tax losses	9,826	7,657
Temporary differences	4,459	8,801
	14,374	16,458
Deferred tax liability comprises:		
Temporary differences	6,775	8,977
Net deferred tax asset	7,599	7,481
Deferred tax assets/(liabilities) arise from the following:		
Amounts charged to income/equity		
Provisions – receivables	909	489
Provisions – employee benefits	551	526
Property, plant and equipment	165	152
Accruals	82	1,276
Prepaid royalties	(6,775)	(7,800)
Inventory	1,686	3,599
Revenue tax losses	9,826	7,657
Other provisions	388	375
Foreign exchange	453	(575)
Cash flow hedges	13	(602)
Other	301	2,384
	7,599	7,481

Notes to the Financial Statements 31 July 2010

NOTE 9: Income tax (continued)

	7 months ended 31 July 2010 \$'000	12 months ended 31 December 2009 \$'000
Movements:		
Opening balance as at 1 January	7,481	(3,687)
Charged/(credited) to the income statement	(497)	9,553
(Credited)/charged to equity	615	(602)
Acquisition of subsidiary	-	528
Other	-	1,689
Closing balance as at 31 July (2009: 31 December)	7,599	7,481

Tax consolidation

Relevance of tax consolidation to the Group

The Company and its wholly-owned Australian resident entities formed a tax-consolidation Group with effect from 1 January 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidation Group is Funtastic Limited. The members of the tax-consolidated Group are identified in Note 34.

Nature of tax funding arrangement and tax sharing agreement

Entities within the tax-consolidated Group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Funtastic Limited and each of the entities in the tax-consolidated Group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to the other entities in the tax-consolidated Group.

The tax sharing agreement entered into between members of the tax-consolidated Group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated Group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated Group is limited to the amount payable to the head entity under the tax funding arrangement.

Notes to the Financial Statements 31 July 2010

NOTE 10: Finance costs

	7 months ended 31 July 2010 \$'000	12 months ended 31 December 2009 \$'000
Continuing operations		
Interest on bank overdrafts and loans	3,431	7,415
Interest on deferred purchase consideration	146	1,188
	3,577	8,603
Fair value losses on interest rate swaps designated as cash flow hedges transferred from equity	17	148
	3,594	8,751

NOTE 11: Current assets – Trade and other receivables

	7 months ended 31 July 2010 \$'000	12 months ended 31 December 2009 \$'000
Trade receivables ^{(1), (2)}	47,671	54,630
Allowance for doubtful debts	(1,638)	(1,700)
Allowance for credit notes, rebates and settlement discounts	(8,229)	(11,257)
	37,804	41,673
Other receivables	759	603
	38,563	42,276

(1) The average credit period on sales of goods is 63 days (2009: 66 days). No interest is charged on the trade receivables.

(2) The Group has recently commenced legal proceedings to recover unpaid debts resulting from the sale of its apparel business in August 2009. The proceedings have been issued against Australian Horizons Trading Pty Limited (AHT) and Jeffrey Moss as guarantor of certain AHT obligations under the 2009 sale of business agreement (SBA). It was recently announced that PlayCorp Pty Limited has acquired the assets of the AHT business. The Group has made a claim against AHT and Jeffrey Moss. At the time of the sale of the business, the Group booked an asset based on the expected deferred consideration of the sale of the business – this amounts to \$6,000 thousand as at 31 July 2010.

As at 31 July 2010, trade receivables of \$47,671 thousand includes \$1,217 thousand of the expected \$6,000 thousand deferred consideration of the sale of the business. The Group is of the view that this amount will be recovered in full and that no impairment loss has been recognised in the 2010 annual report.

Notes to the Financial Statements 31 July 2010

NOTE 11: Current assets – Trade and other receivables (continued)

The Group has provided for any receivable considered uncollectible and therefore deemed to be not recoverable.

Included in the Group's trade receivable balance are debtors with a carrying amount of \$2,361,922 (2009:\$6,571,786) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the Group believes the amounts are recoverable. The Group does not hold any collateral over these balances; however, it does have credit insurance with respect to two individual trade receivables – the shortfall between the credit insurance and the gross receivable has been included in the allowance of doubtful debts below (refer liquidation). The average number of days of the receivables past due but not impaired is 41 days (2009: 37 days).

As at 31 July 2010, the \$1,217 thousand trade receivables in relation to the AHT and Jeffrey Moss legal proceedings are included in the Group's trade receivables past due at reporting date of \$2,361,922.

The Group reviews trade debtors on an ongoing basis and make a provision against specific debtors based on management's assessment of the debtors' ability to settle the debt.

The Group reviews the provision for credit notes, rebates and settlement discounts on an ongoing basis and make allowance for individual customers based on historical sales, trading terms and expected returns, settlement discounts and rebates.

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of \$297,086 (2009: \$389,565) which have been placed under liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivable and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

Movement in Allowance for doubtful debts, credit notes, rebates and settlement discounts

	Doubtful debts \$'000	Rebates, credit notes & settlement discounts \$'000	Total \$'000
7 months ended 31 July 2010			
Balance at beginning of period	(1,700)	(11,257)	(12,957)
Utilised	159	10,713	10,872
Provisions raised	(97)	(7,685)	(7,782)
Balance at end of the period	(1,638)	(8,229)	(9,867)
12 months ended 31 December 2009			
Balance at beginning of year	(372)	(9,919)	(10,291)
Utilised	-	9,208	9,208
Provisions raised	(1,328)	(10,546)	(11,874)
Balance at end of the year	(1,700)	(11,257)	(12,957)

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Notes to the Financial Statements 31 July 2010

NOTE 12: Current assets – Inventories

	31 July 2010 \$'000	31 December 2009 \$'000
Finished goods	29,469	31,018
	29,469	31,018

The cost of inventories recognised as an expense during the period in respect of continuing operations was \$72,640,000 (2009: \$174,987,000).

NOTE 13: Current assets – Other

	31 July 2010 \$'000	31 December 2009 \$'000
Prepaid royalties	23,697	24,731
Prepayments	1,431	1,059
Product development costs	113	164
GST receivable	281	-
	25,522	25,954

NOTE 14: Current tax assets/liabilities

	31 July 2010 \$'000	31 December 2009 \$'000
Tax receivable	-	187
Tax payable	97	-

Notes to the Financial Statements 31 July 2010

NOTE 15: Current assets - Other financial assets

	31 July 2010 \$'000	31 December 2009 \$'000
Consideration receivable on sale of business ⁽¹⁾	4,825	4,930
Other	10	79
	4,835	5,009

(1) The Group has recently commenced legal proceedings to recover unpaid debts resulting from the sale of its apparel business in August 2009. The proceedings have been issued against Australian Horizons Trading Pty Limited (AHT) and Jeffrey Moss as guarantor of certain AHT obligations under the 2009 sale of business agreement (SBA). It was recently announced that PlayCorp Pty Limited has acquired the assets of the AHT business. The Group has made a claim against AHT and Jeffrey Moss. At the time of the sale of the business, the Group booked an asset based on the expected deferred consideration of the sale of the business – this amounts to \$6,000 thousand as at 31 July 2010.

As at 31 July 2010, other current financial assets of \$4,835 thousand includes \$4,825 thousand of the expected \$6,000 thousand deferred consideration of the sale of the business. The Group is of the view that this amount will be recovered in full and that no impairment loss has been recognised in the 2010 annual report.

NOTE 16: Non-current assets – Property, plant and equipment

	31 July 2010 \$'000	31 December 2009 \$'000
Plant and equipment – at cost	6,955	6,980
Less: accumulated depreciation	(5,813)	(5,527)
	1,142	1,453
Leasehold improvements – at cost	2,425	1,958
Less: accumulated amortisation	(619)	(474)
	1,806	1,484
	2,948	2,937

Aggregate depreciation/amortisation allocated during the year is recognised as an expense and disclosed in Note 8 to the financial statements.

Notes to the Financial Statements 31 July 2010

NOTE 16: Non-current assets – Property, plant and equipment (continued)

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:

	Plant and Equipment \$'000	Leasehold Improvements \$'000	Total \$'000
7 months ended 31 July 2010			
Cost			
Opening Balance	6,980	1,958	8,938
Additions	651	467	1,118
Disposals	(655)	-	(655)
Net foreign exchange difference	(21)	-	(21)
Closing Balance	6,955	2,425	9,380
Accumulated Deprecation			
Opening Balance	(5,527)	(474)	(6,001)
Disposals	500	-	500
Depreciation/amortisation	(786)	(145)	(931)
Net foreign exchange difference	-	-	-
Closing Balance	(5,813)	(619)	(6,432)
Written Down Value			
Opening Balance	1,453	1,484	2,937
Closing Balance	1,142	1,806	2,948
12 months ended 31 December 2009			
Cost			
Opening Balance	14,200	1,514	15,714
Additions	1,000	1,260	2,260
Additions on acquisition	877	-	877
Disposals	(3,911)	(19)	(3,930)
Cost of assets impaired	(5,042)	(770)	(5,812)
Net foreign exchange difference	(144)	(27)	(171)
Closing Balance	6,980	1,958	8,938
Accumulated Deprecation			
Opening Balance	(10,249)	(652)	(10,901)
Additions on acquisition	(849)	-	(849)
Disposals	2,948	5	2,953
Depreciation/amortisation	(1,575)	(226)	(1,801)
Accumulated depreciation on assets impaired	4,101	403	4,504
Net foreign exchange difference	97	(4)	93
Closing Balance	(5,527)	(474)	(6,001)
Written Down Value			
Opening Balance	3,950	862	4,813
Closing Balance	1,453	1,484	2,937

Notes to the Financial Statements 31 July 2010

NOTE 17: Non-current assets – Goodwill

	Note	31 July 2010 \$'000	31 December 2009 \$'000
Gross carrying amount			
Balance at the beginning of financial period/year		73,608	97,634
Additional goodwill recognised from business combinations occurring during the period/year			
Additional amounts recognised from past business combinations – earnout obligations	35	-	6,506
Derecognised on disposal of a subsidiary		-	6,373
Impairment losses for the period/year		-	(19,377)
Balance at the end of financial period/year		-	(17,528)
		73,608	73,608
Net book value			
Balance at the beginning of the financial period/year			
Balance at the end of the financial period/year		73,608	97,634
		73,608	73,608

Notes to the Financial Statements 31 July 2010

NOTE 17: Non-current assets – Goodwill (continued)

Impairment – Year ended 31 December 2009

1. Educational toys and furniture

During the prior year, the Group transferred the management and operations of the Educational toys and furniture division to its Toys and Lifestyle Merchandise business. Additionally in accordance with the Group accounting policy the Group assessed the goodwill attached to the business for impairment. The recoverable amount of the Educational toys and furniture division was based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five year period and using a discount rate of 21.2% which represents the estimated weighted average cost of capital ("WACC") for the division as determined. Cash flow projections during and beyond the budget period were based on normalised gross margins and an average growth rate of 0%. This resulted in the recognition of goodwill impairment loss (in full) for the Educational toys and furniture business of \$14,689,000 as at 31 December 2009. This impairment loss is included in impairment and restructuring costs for continuing operations in the statement of comprehensive income.

2. Nursery

During the prior year, the Group transferred the management and operations of the Nursery division to its Toys and Lifestyle Merchandise business. Additionally in accordance with the Group accounting policy the Group assessed the goodwill attached to the business for impairment. The recoverable amount of the Nursery division was based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five year period and using a discount rate of 21.2% which represents the estimated WACC for the division as determined. Cash flow projections during and beyond the budget period were based on normalised gross margins and an average growth rate of 0%. This resulted in the recognition of goodwill impairment loss (in full) for the Nursery business of \$2,839,000 and an impairment of prepaid product costs of the nursery Cash Generating Unit (CGU) of \$313,000 as at 31 December 2009. The total impairment loss of \$3,152,000 is included in impairment and restructuring costs for continuing operations in the statement of comprehensive income.

Allocation of goodwill to cash generating units

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	31 July 2010 \$'000	31 December 2009 \$'000
Toys & Sporting ⁽ⁱ⁾	36,751	36,751
Lifestyle ⁽ⁱ⁾	-	-
International	6,506	6,506
Entertainment	30,351	30,351
Total	73,608	73,608

(i) The Toys & Sporting and Lifestyle CGUs encompass the Toys and Lifestyle Merchandise reportable segment.

Notes to the Financial Statements 31 July 2010

NOTE 17: Non-current assets – Goodwill (continued)

1. Toys & Sporting (T&S)

The recoverable amount of the T&S CGU 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 using a discount rate of 19.1% (2009: 21.2%) which represents the WACC for the CGU. The discount rate is pre-tax and represents the Group's WACC adjusted upwards to reflect the risks specific to the T&M CGU.

Cash flow projections during the budget period are based on normalised sales and gross margins by the CGU and an average growth rate in sales of 0.0% (2009: 0.0%). Cash flows beyond the five year period have been extrapolated using a growth rate of 0.0%, which represents a conservative estimate of long term growth in the business and is significantly lower than the average of the historical consumer price index published by the Reserve Bank of Australia. The growth rates used in the model do not exceed the long term average growth rate for the market in which the CGU's business operates.

The T&S CGU includes other intangibles of \$2,822,000 (2009: \$2,722,000). These are brand names, licenses distribution agreements, supplier relationships and computer software.

Management believes that any reasonable possible change in key assumptions on which the recoverable is based would not cause the CGU's carrying amount to materially exceed its recoverable amount.

2. International

The recoverable amount of the International CGU including goodwill associated with the subsidiary NSR (HK) Limited 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 using a discount rate of 18.1% (2009: 21.2%) which represents the "WACC" for the CGU. The discount rate is pre-tax and represents the Group's WACC adjusted to reflect the risks specific to the International CGU.

Cash flow projections during the budget period are based on normalised gross margins by the CGU and an average growth rate in sales of 0.0% (2009: 0.0%). Cash flows beyond the five year period have been extrapolated using a growth rate of 0.0%, which represents a conservative estimate of long term growth in the business and is significantly lower than the average of the historical consumer price index published by the Reserve Bank of Australia. The growth rates used in the model do not exceed the long term average growth rate for the market in which the CGU's business operates.

Management believes that any reasonable possible change in key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to materially exceed its recoverable amount.

3. Entertainment

The recoverable amount of the Entertainment CGU 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 using a discount rate of 17.1% (2009: 21.2%) which represents the WACC for the CGU. The discount rate is pre-tax and represents the Group's WACC adjusted downwards to reflect the risks specific to the Entertainment CGU.

Cash flow projections during the budget period are based on normalised gross margins by the CGU and an average growth rate in sales of 0.0% (2009: 0.0%). Cash flows beyond the five year period have been extrapolated using a growth rate of 0.0%, which represents a conservative estimate of long term growth in the business and is significantly lower than the average of the historical consumer price index published by the Reserve Bank of Australia. The growth rates used in the model do not exceed the long term average growth rate for the market in which the CGU's business operates.

Management believes that any reasonable possible change in key assumptions on which the recoverable amount is based would not cause the CGU's carrying amount to materially exceed its recoverable amount.

Key Assumptions

The key assumptions used in the value in use calculations for the cash-generating units are as follows:

Weighted Average Cost of Capital

Based on models developed externally, risk-adjusted and based on the CGU's cash flows.

Budgeted Gross Margin

Based on past history and management experience.

Sales Growth

Based on management future expectation taking into account current economic conditions.

Notes to the Financial Statements 31 July 2010

NOTE 18: Non-current assets – Other intangibles

	31 July 2010 \$'000	31 December 2009 \$'000
Brand names ^{(i),(iv)}	1,015	1,015
Software costs ^{(iii),(iv)}	4,666	4,438
Less: Accumulated amortisation and impairment ⁽ⁱⁱⁱ⁾	(2,859)	(2,731)
	1,807	1,707
Licenses, distribution agreements & supplier relationships ⁽ⁱⁱ⁾	48,500	48,500
Less: Accumulated amortisation and impairment ^{(ii) (iii)}	(48,500)	(48,500)
	-	-
	2,822	2,722

	Computer Software \$'000	Brand Names \$'000	Licenses, distribution agreements and supplier relationships \$'000	Total \$'000
Cost				
Balance at 1 January 2009	3,122	552	48,500	52,174
Additions ^(iv)	1,316	463	-	1,779
Balance at 31 December 2009	4,438	1,015	48,500	53,953
Additions ^(iv)	228	-	-	228
Balance at 31 July 2010	4,666	1,015	48,500	54,181
Accumulated amortisation and impairment				
Balance at 1 January 2009	(1,916)	-	(48,376)	(50,292)
Amortisation expense ⁽ⁱⁱⁱ⁾	(815)	-	(124)	(939)
Balance at 31 December 2009	(2,731)	-	(48,500)	(51,231)
Amortisation expense ⁽ⁱⁱⁱ⁾	(128)	-	-	(128)
Balance at 31 July 2010	(2,859)	-	(48,500)	(51,359)
Net book value				
As at 31 December 2009	1,707	1,015	-	2,722
As at 31 July 2010	1,807	1,015	-	2,822

Notes to the Financial Statements 31 July 2010

NOTE 18: Non-current assets – Other intangibles (continued)

- (i) Brands acquired and separately identified as part of the acquisition of Mike & Jack confectionery in May 2006. The Group intends to continue use of the brands for an indefinite period and are therefore not amortised but are subject to an annual test for impairment. The key assumptions used in the value in use calculations for Brand names are as follows: Average Sales Growth Rate 0.0% (2009: 0.0%) and the Discount Rate 19.1% (2009: 21.2%).
- (ii) Licenses, distribution agreements and supplier relationships separately identified as part of the acquisitions of the Madman and Dorcy Groups of companies in May 2006 and August 2005, respectively. These have a finite useful life and are amortised in proportion with the revenues generated from the exploitation of the assets over a period of ten years.
- (iii) The amortisation expense has been included in the line item 'amortisation' in the statement of comprehensive income. A 7 year useful life is used in the calculation of amortisation of computer software costs.
- (iv) Brands acquired and separately identified as part of the acquisition of NSR (HK) Limited in August 2009. The Group intends to continue use of the brands for an indefinite period and are therefore not amortised but are subject to an annual test for impairment. The key assumptions used in the value in use calculations for Brand names are as follows: Average Sales Growth Rate 0.0% (2009: 0.0%) and the Discount Rate 18.1% (2009: 21.2%).

NOTE 19: Non-current assets – Other

	31 July 2010 \$'000	31 December 2009 \$'000
<i>Held to maturity carried at amortised cost:</i>		
Held to maturity asset	1,606	1,619

The Group holds 2,000,000 NZ\$1 convertible notes in Planet Fun Limited a New Zealand registered entity which acquired the net assets of the Toys New Zealand business in 2009. The notes return 7.5% per annum and are convertible at par value on 30 June 2012.

NOTE 20: Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in note 22 to the financial statements, all assets of the Group, except goodwill and deferred tax assets, have been pledged as security. The Group does not have the right to sell or re-pledge the assets.

NOTE 21: Current liabilities – Trade payables

	31 July 2010 \$'000	31 December 2009 \$'000
Trade payables ⁽¹⁾	11,675	10,975

- (1) The average credit period on purchases of certain goods from international customers ranges from four weeks to four months. There is no interest charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Notes to the Financial Statements 31 July 2010

NOTE 22: Borrowings

	31 July 2010 \$'000	31 December 2009 \$'000
Secured – at amortised cost		
Current		
Trade finance	-	6,901
Total Current	-	6,901
Non-current		
Commercial bill finance	33,600	35,965
Debtors finance	22,355	19,567
Trade finance	23,242	-
	79,197	55,532
Less: capitalised transaction costs	(321)	(529)
Total Non-current	78,876	55,003
Current borrowings	-	6,901
Non-current borrowings	78,876	55,003
	78,876	61,904

The trade finance, commercial bill finance and debtors' finance facilities are secured by a first ranking registered mortgage debenture over all assets and undertakings of the Group.

Financing Arrangements

On 13 August 2009, the Group restructured its financing arrangements with its senior lender. In accordance with the resulting Facilities Agreement, there are no financial covenants applicable until 31 December 2010. However, on receipt of the Group's budget for the 2011 financial year, the senior lender is able to introduce financial covenants to apply to the Group's financing arrangements after 31 December 2010. Based on discussions with the senior lender, management anticipates that any financial covenants introduced will be reasonable and commercial. No financial covenants have yet been advised by the senior lender at the date of this report.

During the period ended 31 July 2010, the Group extended the maturity date of its financing arrangements to 31 August 2011, on similar terms.

The current interest rates are 8.23% on the debtors finance facility, 8.36% on the trade finance facility and 8.25% on the commercial bill facility (2009: 13.73%, 7.65% and 7.70% respectively).

Financing Arrangements – Controlled Entities

All facilities are secured by a first ranking mortgage debenture of the Group. Refer to Note 37 Financial Instruments for further details regarding the lending covenants associated with the borrowings.

Notes to the Financial Statements 31 July 2010

NOTE 23: Provisions

	31 July 2010 \$'000	31 December 2009 \$'000
Current		
Employee benefits(i)	1,706	1,161
Restructuring provisions(ii)	-	2,255
Total Current	1,706	3,416
Non-current		
Employee benefits(i)	147	453
Total Non-current	147	453
	1,853	3,869

	Restructuring ⁽ⁱⁱ⁾ \$'000	Total \$'000
Balance at 1 January 2010	2,255	2,255
Additional provisions recognised	-	-
Reductions arising from payments/other sacrifices of future economic benefits	(2,255)	(2,255)
Balance at 31 July 2010	-	-

- (i) The provision for employee benefits represents annual leave and vested long service leave entitlements accrued and compensation claims made by employees.
- (ii) The provision for restructuring is consistent with the Group's continued focus on transforming the business for a more sustainable future. The provision represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required in order to effect the restructuring plan.

Notes to the Financial Statements 31 July 2010

NOTE 24: Deferred purchase consideration

	31 July 2010 \$'000	31 December 2009 \$'000
Current		
Deferred purchase consideration	2,367	8,268
Accrued interest deferred purchase consideration	-	2,012
Total Current	2,367	10,280
Non-current		
Deferred purchase consideration	-	2,367
	-	2,367
Total Non-current	2,367	12,647

On 10 May 2006, the Group acquired all of the issued shares in the Madman Group of Companies (Madman), a leading independent distributor of DVD products into retail and rental stores throughout Australia and New Zealand. As part of the negotiated purchase price an earn-out may be payable to the vendors, based on a multiple of EBIT for the each of the years ended 31 December 2006 to 31 December 2009, not due and payable until 11 May in the year following each respective period. The amount payable has been included in the determination of the value of goodwill. Interest on the earn-out consideration is payable to the vendors annually. During the period, the Group paid to the vendors \$10,426,374 in full and final settlement, inclusive of interest, of the earn-out. The additional interest amount of \$145,894 not accrued has been charged to the statement of comprehensive income.

On 13 August 2009 the Group acquired all of the issued shares in NSR (HK) Limited (NSR), a Hong Kong based designer and developer of Toys who holds the global master licence for Noddy as well other market specific licences. An earnout may be payable for both the 2009 and 2010 financial years subject to the achievement of EBIT targets and the reduction of the shareholder loans and will entitle the vendor to a maximum of 40,000,000 ordinary shares. This includes the 10,000,000 ordinary shares issued as initial consideration for acquiring NSR (HK) Limited. There is no consideration payable in respect to the 2009 year; however the Group has recognised an amount payable of \$2,367,000 in respect to 2010 based on forecasts.

Notes to the Financial Statements 31 July 2010

NOTE 25: Other liabilities

	31 July 2010 \$'000	31 December 2009 \$'000
Current		
Accrued royalties	11,786	16,668
GST payable	-	723
Lease incentives	213	90
Payroll accruals	950	679
Other accrued expenses	4,779	8,952
	17,728	27,112
Non-current		
Lease incentives	1,117	1,161
	1,117	1,161

NOTE 26: Other financial liabilities

Current	Note	31 July 2010 \$'000	31 December 2009 \$'000
Derivatives			
Derivatives that are designated and effective as hedging instruments carried at fair value:			
Foreign currency forward contracts		831	217
Interest rate swaps		140	380
	37	971	597
Disclosed in the financial statements as:			
Current other financial liabilities		971	597

Notes to the Financial Statements 31 July 2010

NOTE 27: Issued capital

	31 July 2010 \$'000	31 December 2009 \$'000
Share Capital		
340,997,682 fully paid ordinary shares (2009: 340,997,682)	159,377	159,377

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

Details	31 July 2010		31 December 2009	
	Number of Shares \$'000	\$'000	Number of Shares '000	\$'000
Movements in Ordinary Share Capital				
Opening balance	340,998	159,377	165,499	137,202
One for one rights issue	-	-	165,499	22,342
Share issue to NSR (HK) Ltd	-	-	10,000	1,400
Capital raising costs	-	-	-	(1,567)
Closing balance	340,998	159,377	340,998	159,377

Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

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.

Share Purchase Plan

On 14 August 2009 the company completed a one for one renounceable rights issue underwritten at 13.5 cents per share. The proceeds from this issue were applied to debt. Costs of \$1,567,000 associated with the capital raising were incurred.

There were no Share Purchase Plans offered to shareholders during the current period.

Share Issue on Acquisition of Business Assets

On 13 August 2009 the company acquired all of the issued shares in NSR (HK) Limited (NSR), a Hong Kong based designer and developer of Toys who holds the global master licence for Noddy as well other market specific licences. Consideration for this acquisition was by way of 10,000,000 fully paid ordinary shares at the market price of 14 cents.

Notes to the Financial Statements 31 July 2010

NOTE 27: Issued capital (continued) **Rights**

Options

Executive Share Options

At 31 July 2010, executives held options over 6,950,000 ordinary shares of the Company, of which 200,000 will expire on 2 September 2013, 5,000,000 will expire on 10 August 2014 and 1,750,000 will expire on 1 April 2015. At 31 December 2009, executives held options over 5,200,000 ordinary shares of the Company, of which 200,000 will expire on 2 September 2013 and 5,000,000 will expire on 10 August 2014.

Share options granted under the Executive Share Option Plan (ESOP) carry no rights to dividends and no voting rights. Further details of the ESOP, including details of shares issued under the scheme, are set out in note 38.

Ordinary Options - MGA Entertainment (HK) Limited

On 19 January 2004, Funtastic issued 1,500,000 Ordinary Options 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.

Employee Performance Share Rights

At 31 July 2010, employees held options over 50,000 ordinary shares of the Company which will expire on 2 September 2013. At 31 December 2009, employees held options over 150,000 ordinary shares of the Company, of which 35,000 will expire on 2 September 2012 and 115,000 will expire on 2 September 2013.

Share options granted under the Employee Performance Share Rights Plan (EPSR) carry no rights to dividends and no voting rights. Further details of the EPSR, including details of shares issued under the scheme, are set out in note 38.

NOTE 28: Accumulated losses

	31 July 2010 \$'000	31 December 2009 \$'000
Opening balance	(82,385)	(24,332)
Net loss after tax for the period/year	(3,579)	(58,053)
Dividends paid	-	-
Balance at the end of financial period/year	(85,964)	(82,385)

Notes to the Financial Statements 31 July 2010

NOTE 29: Reserves

	31 July 2010 \$'000	31 December 2009 \$'000
Foreign currency translation reserve	(1,048)	(1,083)
Equity-settled benefits reserve	1,374	1,237
Cash flow hedging reserve	(479)	(409)
	(153)	(255)
Foreign currency translation reserve		
Balance at the beginning of the period/year	(1,083)	(720)
Translation of foreign operations	35	(363)
Balance at the end of the period/year	(1,048)	(1,083)

Exchange differences relating to the translation from United States Dollars, New Zealand Dollars and Hong Kong Dollars, being the functional currencies of the Group's foreign controlled entities in USA, New Zealand and Hong Kong, into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

	31 July 2010 \$'000	31 December 2009 \$'000
Equity settled benefit reserve		
Balance at the beginning of the period/year	1,237	1,224
Share based payment	137	13
Transfer to share capital	-	-
Balance at the end of the period/year	1,374	1,237

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 Note 38 to the financial statements.

Notes to the Financial Statements 31 July 2010

NOTE 29: Reserves (continued)

	31 July 2010 \$'000	31 December 2009 \$'000
Cash Flow Hedging reserve		
Balance at the beginning of the period/year	(409)	(1,613)
Gain/(Loss) recognised:		
Forward exchange contracts	(484)	104
Interest rate swaps	401	1,702
Transferred to profit or loss (i):		
Interest rate swaps	17	148
Transferred to initial carrying amount of hedged item:		
Interest rate swaps	(17)	(148)
Deferred tax asset/(liability) arising on hedges	13	(602)
Balance at the end of the period/year	(479)	(409)

(i) Gains and losses transferred from equity into profit or loss during the period are included in the following line items on the face of the income statement:

	31 July 2010 \$'000	31 December 2009 \$'000
Revenue	-	-
Finance costs	(17)	(148)
	(17)	(148)

The hedging reserve represents hedging gains or losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Notes to the Financial Statements 31 July 2010

NOTE 30: Earnings per share

	31 July 2010 Cents per share	31 December 2009 Cents per share
Basic earnings per share		
From continuing operations	(1.05)	(17.9)
From discontinued operations	-	(7.1)
Earnings per share	(1.05)	(25.0)
Diluted earnings per share		
From continuing operations	(1.05)	(17.9)
From discontinued operations	-	(7.1)
Earnings per share	(1.05)	(25.0)
Basic earnings per share		
The earnings and weighted average number of ordinary shares used in the calculation of earnings per share are as follows:		
	2010 \$'000	2009 \$'000
Net loss	(3,579)	(58,053)
Earnings used in the calculation of total basic EPS	(3,579)	(58,053)
Loss for the year from discontinued operations used in the calculation of basic EPS from discontinued operations	-	(16,389)
Loss used in the calculation of basic EPS from continuing operations	(3,579)	(41,664)
	2010 No. '000	2009 No. '000
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	340,998	232,333
Diluted earnings per share		
The earnings used in the calculation of diluted earnings per share are as follows:		
	2010 No. '000	2009 No. '000
Net loss	(3,579)	(58,053)
Earnings used in the calculation of diluted EPS	(3,579)	(58,053)
Loss for the year from discontinued operations used in the calculation of diluted EPS from discontinued operations	-	(16,389)
Loss used in the calculation of diluted EPS from continuing operations	(3,579)	(41,664)
	2010 No. '000	2009 No. '000
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	340,998	232,333
Shares deemed to be issued for no consideration in respect of:		
Share options and performance share rights	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	340,998	232,333

Notes to the Financial Statements 31 July 2010

NOTE 30: Earnings per share (continued)

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

	31 July 2010 \$'000	31 December 2009 \$'000
Potential options non dilutive	8,500	6,850
	8,500	6,850

Weighted average number of converted, lapsed or cancelled potential ordinary shares included in the calculation of diluted earnings per share:

	31 July 2010 \$'000	31 December 2009 \$'000
Options to purchase ordinary shares pursuant to the employee share option plan	-	-
	-	-

NOTE 31: Dividends

No dividends were declared or paid in 2009 or 2010.

	31 July 2010 \$'000	31 December 2009 \$'000
Adjusted franking account balance	21,891	21,891

Impact on franking account balance of dividends not recognised.

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

- franking credits that will arise from the payment / (refund) of income tax payable as at the end of the year;
- franking debits that will arise from the payment of dividends proposed as at the end of the year; and
- franking credits that may be prevented from being distributed in the subsequent financial year.

Notes to the Financial Statements 31 July 2010

NOTE 32: Lease commitments

Lease commitments

Non-cancellable operating lease commitments are disclosed in note 33 to the financial statements. The Group does not have any finance lease liabilities as at 31 July 2010 (31 December 2009: \$nil).

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:

	31 July 2010 \$'000	31 December 2009 \$'000
Not later than one year	3,116	4,668
Later than one year but not later than two years	1,782	1,807
Later than two years but not later than five years	1,463	1,477
	6,361	7,952

NOTE 33: Leases

	31 July 2010 \$'000	31 December 2009 \$'000
Non-cancellable operating lease payments		
Commitments in relation to non-cancellable operating leases contracted for but not capitalised in the accounts are payable as follows:	2,339	2,906
Not later than one year	7,652	8,021
Later than one year but not later than five years	3,244	4,272
Later than five years	13,235	15,199

The operating leases are non-cancellable leases with respect to office and warehouse premises with lease terms of between six months and five years, some with options to extend. All operating leases with options to extend contain market review clauses in the event that the company Group exercises its option to renew. The Group and the company do not have an option to purchase the leased asset at the expiry of the leased period.

Notes to the Financial Statements 31 July 2010

NOTE 34: Subsidiaries

Name of Entity	Country of Incorporation	Equity Holding	
		31 July 2010 %	31 December 2009 %
Company			
Funtastic Limited (i)	Australia	100	100
Subsidiaries			
JNH Australia Pty Ltd (ii),(iii)	Australia	100	100
Fun International Ltd	Hong Kong	100	100
Funtastic International Limited	Hong Kong	100	100
Funtastic (NZ) Pty Limited(ii),(iii)	Australia	100	100
Dorcy Irwin Pacific Pty Limited (ii)	Australia	100	100
Dorcy Investments Pty Limited (ii)	Australia	100	100
Irwin Pacific Pty Limited (ii)	Australia	100	100
Dorcy NZ Pty Limited	New Zealand	50	50
Madman Entertainment Pty Limited (ii)	Australia	100	100
Madman Films Pty Limited (ii)	Australia	100	100
Madman Interactive Pty Limited (ii)	Australia	100	100
The AV Channel Pty Limited (ii)	Australia	100	100
Judius Pty Ltd (ii),(iii)	Australia	100	100
My Paint Box Inc (formerly Global Funtastic Inc.)	USA	100	100
Madman NZ Limited	New Zealand	100	100
NSR (HK) Limited	Hong Kong	100	100
Hkeepod (HK) Limited	Hong Kong	100	100

(i) Funtastic Limited is the head entity within the tax-consolidated Group.

(ii) These companies are members of the tax-consolidated Group.

(iii) These wholly-owned subsidiaries have entered into a deed of cross guarantee with Funtastic Limited pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare and lodge an audited financial report. The subsidiaries became a party to the deed of cross guarantee on 23 December 2008.

Notes to the Financial Statements 31 July 2010

NOTE 34: Subsidiaries (continued)

The consolidated Statement of Comprehensive Income and Balance Sheet of the entities party to the deed of cross guarantee are:

	7 months ended 31 July 2010 \$'000	12 months ended 31 December 2009 \$'000
Continuing operations		
Revenue	108,273	230,511
Cost of goods sold	(72,615)	(175,085)
Gross profit	35,658	55,426
Warehouse and distribution	(10,003)	(17,769)
Marketing and selling	(18,336)	(44,409)
Administration	(4,757)	(13,244)
Earnings before interest, taxation, amortisation and restructuring costs (EBITA)	2,562	(19,996)
Finance costs	(3,582)	(8,764)
Amortisation	(274)	(1,125)
Impairment and restructuring costs	-	(18,664)
Loss before income tax	(1,293)	(48,549)
Income tax benefit/(expense)	(3,293)	8,808
Loss for the period/year from continuing operations	(4,586)	(39,741)
Discontinued operations		
Loss for the period/year from discontinued operations	-	(6,968)
Loss for the period/year	(4,586)	(46,709)
Other comprehensive income		
Exchange differences arising on translation of foreign operations	-	(285)
Gain/(loss) on cash flow hedges transferred from/taken to equity	(70)	1,204
Gain on equity settled benefits transferred from/taken to equity	137	13
Other comprehensive income for the period/year (net of tax)	67	932
Loss for the period/year	(4,519)	(45,777)

Notes to the Financial Statements 31 July 2010

NOTE 34: Subsidiaries (continued)

	31 July 2010 \$'000	31 December 2009 \$'000
Current Assets		
Cash	584	1,696
Trade and other receivables	38,005	41,569
Inventories	29,178	30,986
Other	25,035	15,378
Current tax assets	-	1,059
Other financial assets	10,824	12,318
Total Current Assets	103,626	103,006
Non-Current Assets		
Property, plant and equipment	2,259	4,573
Goodwill	67,981	67,981
Other intangibles	2,359	541
Investments	4	4
Deferred tax assets	14,924	18,220
Other Financial Assets	1,606	1,619
Total Non-Current Assets	89,133	92,938
Total Assets	192,759	195,944
Current Liabilities		
Trade and other payables	11,488	10,543
Borrowings	-	6,901
Provisions	1,688	8,509
Deferred purchase consideration	2,367	8,268
Other	2,730	3,595
Other Financial Liabilities	971	597
Total Current Liabilities	19,244	38,413
Non-Current Liabilities		
Borrowings	78,876	55,532
Provisions	147	543
Deferred tax liabilities	6,775	6,778
Deferred purchase consideration	-	2,367
Other	1,086	1,161
Total Non-Current Liabilities	86,884	66,381
Total Liabilities	106,128	104,794
Net Assets	86,631	91,150
Equity		
Issued capital	159,212	159,212
Accumulated losses	(72,515)	(67,929)
Reserves	(66)	(133)
Total Equity	86,631	91,150

Notes to the Financial Statements 31 July 2010

NOTE 35: Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Cost of acquisition \$'000
2009				
NSR (HK) Limited(i)	Toy Distribution	14 August 2009	100	2,329
				<u>2,329</u>

The acquired business contributed revenue of \$7,608,937 and net profit after tax of \$8,576 to the Group for the period 14 August 2009 to 31 December 2009. There were no businesses acquired during the period ended 31 July 2010.

- (i) As at 31 December 2009, the acquisition of the NSR (HK) Limited business was provisionally accounted for in accordance with AASB 3 Business Combinations. During the period ended 31 July 2010, the Group finalised its accounting for this acquisition. The original and revised fair values are presented below, resulting in an increase in the cost of acquisition of \$50,000 and an increase in other liabilities of \$513,000.

Net assets acquired and liabilities assumed on acquisition

	Book value \$'000	Original Fair value adjustment \$'000	Revised Fair value adjustment (i) \$'000	Final Fair value on acquisition \$'000
Current assets				
Debtors	870	(2)	(2)	868
Inventories	19	-	-	19
Other current assets	505	(87)	(87)	418
Non-current assets				
Plant and equipment	348	(269)	(269)	79
Deferred tax asset	528	-	-	528
Current liabilities				
Bank overdraft	(1,521)	-	-	(1,521)
Trade creditors	(1,118)	-	-	(1,118)
Shareholder loans	(601)	-	-	(601)
Employee benefits	(18)	-	-	(18)
Other liabilities	(2,669)	(97)	(610)	(3,279)
Provisions	-	(15)	(15)	(15)
	(3,657)	(470)	(983)	(4,640)

Notes to the Financial Statements 31 July 2010

NOTE 35: Acquisition of businesses (continued)

Goodwill on acquisition

	NSR (HK) Limited		
	Provisional \$'000	Adjustments \$'000	Final \$'000
Equity to Vendor	1,400	-	1,400
Direct costs relating to the acquisition	879	50	929
Total Consideration	2,279	50	2,329
Fair value of net identifiable assets acquired	(4,127)	(513)	(4,640)
Excess consideration	6,406	563	6,969
Represented by:			
Identifiable intangible ⁽¹⁾	463	-	463
Goodwill	5,943	563	6,506
Total	6,406	563	6,969

(1) The net identifiable intangible represents value placed on acquired brands. These were independently valued at the time of acquisition.

Equity paid to the vendor was by way of the issue of 10 million ordinary shares in Funtastic Limited. These have been valued at the share price (14 cents) on the date of completion, 13 August 2009.

Goodwill arose on acquisition because the cost included a control premium. In addition the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development, access to global licensing opportunities and the assembled workforce of NSR. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on the acquisitions is expected to be deductible for tax purposes.

An earnout may be payable for both the 2009 and 2010 financial years subject to the achievements of EBIT targets and the reduction of the shareholder loans and will entitle the vendor to a maximum of 40,000,000 ordinary shares. This includes the 10,000,000 ordinary shares issued as initial consideration for acquiring NSR (HK) Limited. There is no consideration payable in respect to the 2009 year however the Group has recognised an amount payable of \$2,367,000 in respect to 2010 based on forecasts.

On 10 May 2006, the Group acquired all of the issued shares in the Madman Group of Companies (Madman), a leading independent distributor of DVD products into retail and rental stores throughout Australia and New Zealand. As part of the negotiated purchase price an earn-out may be payable to the vendors, based on a multiple of EBIT for the each of the years ended 31 December 2006 to 31 December 2009, not due and payable until 11 May in the year following each respective period. The amount payable has been included in the determination of the value of goodwill. Interest on the earn-out consideration is payable to the vendors annually. During the period, the Group paid to the vendors \$10,426,374 in full and final settlement, inclusive of interest, of the earn-out. The additional interest amount of \$145,894 not accrued has been charged to the statement of comprehensive income.

NOTE 36: Notes to the cash flow statement

a) Reconciliation of cash and cash equivalents

	31 July 2010	31 December 2009
	\$'000	\$'000
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:		
Cash and cash equivalents	972	2,191
	972	2,191

Notes to the Financial Statements 31 July 2010

NOTE 36: Notes to the cash flow statement (continued)

b) Financing facilities

	31 July 2010 \$'000	31 December 2009 \$'000
Total Financing Facilities		
National Debtor Finance Facility	25,000	25,000
Trade Refinance Facility	23,300	23,300
Commercial Bill Facility	33,600	37,555
Letters of Credit	16,400	16,700
Bank Guarantees	2,300	2,000
Other Facilities	250	250
	100,850	104,805
Reconciliation of Total Financing Facilities		
Facilities Used at Balance Date		
National Debtor Finance Facility	22,355	19,567
Trade Refinance Facility	23,242	6,901
Commercial Bill Facility	33,600	35,965
Letters of Credit	8,986	6,939
Bank Guarantees	2,275	1,939
Other Facilities	3	1
	90,461	71,312
Facilities Unused at Balance Date		
National Debtor Finance Facility	2,645	5,433
Trade Refinance Facility	58	16,399
Commercial Bill Facility	-	1,590
Letters of Credit	7,414	9,761
Bank Guarantees	25	61
Other Facilities	247	249
	10,389	33,493
Total Financing Facilities	100,850	104,805

The Group has access to financing facilities at reporting date as indicated above.

Notes to the Financial Statements 31 July 2010

NOTE 36: Notes to the cash flow statement (continued)

c) Reconciliation of Profit after Income Tax to Net Cash Inflow from Operating Activities

	7 months ended 31 July 2010 \$'000	12 months ended 31 December 2009 \$'000
Loss after income tax	(3,579)	(58,053)
Gain on sale of businesses	-	(6,863)
Amortisation	327	1,250
Impairment	-	29,601
Depreciation	1,113	1,575
Interest revenue	(72)	(54)
Share options expense	137	13
Loss on sale of non-current assets	6	1,840
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:	3,713	13,213
Decrease in trade and other receivables		
Decrease in inventories	1,549	20,657
(Increase)/decrease in deferred tax asset	2,084	(10,534)
(Increase)/decrease in prepayments and other current assets	432	(1,060)
(Increase)/decrease in other financial assets	69	(79)
Decrease in trade creditors and accruals	(8,684)	(10,479)
Decrease/(increase) in current tax asset	187	1,922
Increase/(decrease) in current tax liability	97	-
Decrease in provisions	(2,016)	(1,250)
Increase/(decrease) in deferred tax liability	(2,202)	70
Increase in other liabilities	720	790
Net cash outflow from operating activities	(6,119)	(17,441)

Notes to the Financial Statements 31 July 2010

NOTE 36: Notes to the cash flow statement (continued)

d) Business disposed

During the prior year, the Group disposed of its Softgoods and Toys New Zealand business units. Details of the disposals are as follows:

	31 December 2009 \$'000
Considerations	
Total proceeds	14,617
Associated costs incurred	(2,446)
	<u>12,171</u>
Book value of net assets sold	
Cash and cash equivalents	4
Trade and other receivables	1,604
Inventories	4,325
Other current assets	19
Non-current assets	
Property, plant and equipment	649
Current Liabilities	
Trade and other payables	(988)
Provisions	(305)
Net assets disposed	<u>5,308</u>
Gain on disposal	<u>6,863</u>
Net cash inflow on disposal	
Cash and cash equivalent consideration	14,617
Less: consideration receivable on sale of business	(4,930)
Less: cash and cash equivalent balances disposed of	(4)
	<u>9,683</u>
Comprises of:	
Net cash inflow on disposal of Softgoods	3,924
Net cash inflow on disposal of Toys New Zealand	<u>5,759</u>
	<u>9,683</u>

e) Businesses acquired

During the financial period, the Group made an earn-out payment to the vendors of the Madman Group of Companies, the net cash outflow was: \$10,426,374 (2009: \$2,365,000).

During the prior year, the Group acquired NSR (HK) Limited and the consideration for which was equity paid to the vendor by way of the issue of 10 million ordinary shares in Funtastic Limited.

Notes to the Financial Statements 31 July 2010

NOTE 37: Financial instruments

Capital risk management

The Group manage its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which comprises the borrowings detailed in note 22, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, accumulated losses and reserves as disclosed in notes 27, 28 and 29 respectively.

The board reviews the capital structure on a regular basis. As part of this review the cost of capital and the risks associated with each class of capital is considered. The Group balances its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt and the repayment of debt.

During the period the Group renegotiated its banking facilities. The trade finance facility expires 31 August 2011. The Debtors finance and bill facilities expire on 31 August 2011 and have been disclosed as non-current borrowings in the balance sheet.

Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements. These policies were consistent throughout the current period and the prior year.

Financial Instrument	31 July 2010 \$'000	31 December 2009 \$'000
Financial assets		
Derivative instruments in designated hedge accounting relationships	10	79
Loans and receivables (including cash and cash equivalents)	43,601	42,034
Convertible note held to maturity	1,606	1,619
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	971	597
Amortised cost	109,804	110,153

Financial risk management objectives

The Group's finance function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks, by using various financial instruments to hedge these exposures. The use of financial instruments is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity.

Compliance with policies and exposure limits is reviewed on a continual basis. The Group does not enter into any trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rates and foreign currency risk, including:

- Foreign exchange forward contracts to hedge the exchange rate risk arising on the import of goods denominated in US dollars and Euros; and
- Interest rate swaps to mitigate the risk of rising interest rates.

At a Group level, market risk exposures are measured through sensitivity analysis and stress scenario analysis.

In 2010, while there has been a strengthening of the Australian dollar against the US dollar and the Euro, and static variable interest rates, there has been no material change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

Notes to the Financial Statements 31 July 2010

NOTE 37: Financial instruments (continued)

Foreign currency risk management

Foreign currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to foreign exchange risk arises from the net investment in New Zealand and United States operations and the undertaking of certain transactions denominated in foreign currencies.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Liabilities		Assets	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
US dollars	6,793	7,566	6,636	3,482
NZ dollars	475	354	1,130	1,753
Euro	274	545	53	13
Other	22	281	6	220

Foreign currency sensitivity

The Group is mainly exposed to the US dollar, Euro and the NZ dollar. The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies. 10% is the sensitivity rate which represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

A positive number indicates an increase in profit or loss where the Australian dollar strengthens against the respective currency. For a weakening of the Australian dollar against the respective currency there would be an equal and opposite impact on profit or loss, and the balances below would be negative. A positive number indicates an increase in other equity where the Australian dollar weakens against the respective currency. For a strengthening of the Australian dollar against the respective currency there would be an equal and opposite impact on other equity, and the balances below would be negative.

	USD impact		EURO impact		NZD impact	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Profit & Loss ⁽ⁱ⁾	40	415	25	60	(36)	112
Other equity ⁽ⁱⁱ⁾	1,146	43	-	-	-	-

(i) This is mainly attributable to the exposure outstanding in USD receivables and payables at year end.

(ii) This is mainly as a result of the charges in fair value of derivative instruments designated as cash flow hedges.

Notes to the Financial Statements 31 July 2010

Forward foreign exchange contracts

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		Foreign currency		Contract value		Fair value	
	2010	2009	2010	2009	2010	2009	2010	2009
Outstanding contracts								
Buy US dollars	AUD/USD		US\$'000	US\$'000	A\$'000	A\$'000	\$'000	\$'000
0-12 months	0.8622	0.8930	12,984	8,210	15,059	9,194	(476)	(60)
Total	0.8622	0.8930	12,984	8,210	15,059	9,194	(476)	(60)

	Average Exchange Rate		Foreign currency		Contract value		Fair value	
	2010	2009	2010	2009	2010	2009	2010	2009
Outstanding contracts								
Buy US dollars	AUD/USD		US\$'000	US\$'000	A\$'000	A\$'000	\$'000	\$'000
0-12 months	0.8622	0.8930	12,984	8,210	15,059	9,194	(476)	(60)
Total	0.8622	0.8930	12,984	8,210	15,059	9,194	(476)	(60)

The Group has entered into contracts to purchase inventory from overseas suppliers. These forward foreign exchange contracts are for terms not exceeding 12 months to hedge the exchange rate risk arising from these anticipated future purchases, which are designated into cash flow hedges.

At balance date these purchase contracts were liabilities of the Group of \$476,000 (2009: liability \$72,000).

During the period ended 31 July 2010 a loss on hedging instruments for the Group of \$484,000 (31 December 2009: gain \$104,000) has been brought to account in other current financial assets and liabilities (refer note 29). An amount, net of tax, was transferred to equity (refer note 29). It is anticipated these purchases will take place during the first 6 months of the next financial year at which stage the amount deferred in equity will be included in the carrying amount of the finished goods inventory. It is anticipated that the finished goods inventory will be sold within 12 months after purchase at which stage the amount deferred in equity will impact profit or loss.

Interest rate risk management

Interest rate risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section below.

Notes to the Financial Statements 31 July 2010

NOTE 37: Financial instruments (continued)

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates to the Group at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The Group considers the likelihood of a 100 basis point increase or decrease to be reasonable when reporting interest rate risk internally to key management personnel as this represent management's best estimate of the possible change in interest rates.

At reporting date, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the Group's:

- Net profit after taxation would increase/decrease by \$258,000 (2009: increase/decrease by \$232,000). This is mainly due to the Group's exposure to interest rates on its variable rate borrowings; and
- Equity, before taking into account the effect of the interest rate swap, would increase/decrease by \$nil (2009: increase/decrease by \$232,000). As a result of the Group's interest rate swap being de-designated, the balance deferred in the cash flow hedging reserve is being amortised on a straight line basis through to maturity and accordingly, because the interest rate swap is no longer effective, the movement in the fair value of the swap is recorded directly in profit or loss during the period. As a result, during the period equity is no longer impacted by movements in interest rates.

Interest Rate Swap Contracts

Bank loans of the Group currently bear an average variable interest rate of 8.33% (2009: 9.58%). It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group 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 financial assets/liabilities.

The floating rate on the interest rate swap is the Australian bank bill swap rate (BBSW).

The contract requires settlement of net interest receivable or payable quarterly. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

The swap currently in place covers 100% (2009: 100%) of the long term loan principal outstanding and is timed to expire on 10 November 2010. The fixed interest rate is 6.01% (2009: 7.70%) and the variable rate is the bank bill rate of the term of the underlying bill which at balance date was 4.75% (2009: 4.2%).

As at 31 July 2010 (2009: 31 December 2009), the notional principal amounts and the periods of expiry of the interest rate swap contract for the Group was as follows:

Outstanding floating for fixed contracts	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2010 %	2009 %	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Less than 1 year	6.01	-	31,900	-	(140)	-
Less than 2 years	-	7.70	-	36,000	-	(380)
			31,900	36,000	(140)	(380)

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount deferred in equity is recognised in profit or loss over the loan period.

Notes to the Financial Statements 31 July 2010

NOTE 37: Financial instruments (continued)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group and company. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Trade receivables consist of a large number of customers spread across diverse industries. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance is purchased.

The Group has a credit risk exposure to a small number of major ASX listed corporations for which credit guarantee insurance is not purchased. Ongoing credit evaluation is performed on the financial condition of these accounts receivable.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Group's maximum exposure to credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group 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. The initiation of a debt reduction plan has resulted in the divestment of under-performing or non-core assets, and reduction in levels of inventory and raising of cash via a fully underwritten rights issue.

Liquidity and interest tables - financial liabilities

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 month \$'000	1 – 3 months \$'000	3 months to 1 year \$'000	1 – 5 years \$'000	5+ years \$'000	Total \$'000
2010							
Non-interest bearing	-	2,335	9,340	18,932	-	-	30,607
Variable interest rate instruments	8.33%	-	-	-	49,712	-	49,712
Fixed interest rate instruments ⁽¹⁾	9.51%	155	311	2,574	34,022	-	37,062
		2,490	9,651	21,506	83,734	-	117,381
2009							
Non-interest bearing	-	2,658	8,778	15,480	-	-	26,916
Variable interest rate instruments	12.34%	6,466	482	-	23,596	-	30,544
Fixed interest rate instruments ⁽¹⁾	7.44%	-	-	8,492	42,686	-	51,178
		9,124	9,260	23,972	66,282	-	108,638

(1) The effective interest rate instruments include variable borrowings whose rate has been fixed using an interest rate swap.

Notes to the Financial Statements 31 July 2010

NOTE 37: Financial instruments (continued)

Liquidity and interest tables - financial assets

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the understood contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month	1 – 3 months \$'000	3 months to 1 year \$'000	1 – 5 years \$'000	5+ years \$'000	Total \$'000
2010							
Non-interest bearing	-	7,563	30,243	4,825	-	-	42,631
Variable interest rate instruments	3.33%	970	-	-	-	-	970
Fixed interest rate instruments	7.50%	-	-	-	1,837	-	1,837
		8,533	30,243	4,825	1,837	-	45,438
2009							
Non-interest bearing	-	17,528	23,551	187	-	-	41,266
Variable interest rate instruments	1.78%	1,987	-	-	-	-	1,987
Fixed interest rate instruments	7.50%	-	-	-	1,923	-	1,923
		19,515	23,551	187	1,923	-	45,176

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair values.

Notes to the Financial Statements 31 July 2010

NOTE 38: Share-based payments

Executive Share Option Plan (ESOP)

A scheme under which shares may be issued to executives 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 2

In respect to one half of the options granted the following performance conditions are required to be achieved:

- a) for 50% to vest, the diluted earnings per share (EPS) average increase in growth rate over three years, is required to be 11%p.a;
- b) for the remaining 50% to vest the average diluted EPS growth rate over the three years, is required to be 15%p.a;
- c) if the average annual increase in diluted EPS growth rate over three years, is between 11% p.a and 15%p.a, the options will vest proportionately from 50% up to 100% of the entitlement; and
- d) the employee being in continuous employment with the company until 31 March in the year following the three years.

In respect of the other half of the options granted the following performance conditions are required to be achieved:

- a) for 50% to vest, Funtastic's relative total shareholders return (TSR) during the three year period is required to be at least equal to the TSR achieved by the company which is the median of the companies in the Comparator Group ranked by TSR performance (The Comparator Group comprises the companies in the S&P ASX small ordinaries index at the start of the period);
- b) for the remaining 50% of the entitlement to vest, Funtastic's TSR has to be equal to or greater than the TSR of the company which is at the 75th percentile of the Comparator Group ranked by TSR performance during the three year period;

Option type 3

For each of the three years, one third of the options will vest on the anniversary of employment provided there is a 30% compound share growth based on the exercise price of 13.5 cents. In such case the following performance hurdles are required to be achieved:

- a) in year 1 the share price to be no less than 17 cents;
- b) in year 2 the share price to be no less than 23 cents; and
- c) in year 3 the share price to be no less than 30 cents.

If the performance hurdle rate is not achieved for any particular year the allocation of options for that year will still vest if the cumulative performance hurdle for the following year or years is achieved. In such cases the vested options roll over to the year when the cumulative performance hurdle is achieved.

Performance hurdles will be achieved if the requisite share price is maintained for any six months of the relevant 12 month period, based on the volume weighted average market price of the shares on the ASX for each month commencing on the first day of employment with Funtastic.

Option type 4

Type 4 options are identical to type 3 options in every regard, except for the following exercise price and performance hurdles:

- For each of the three years, one third of the options will vest on the anniversary of employment provided there is a 30% compound share growth based on the exercise price of 20.7 cents. In such case the following performance hurdles are required to be achieved:

- a) in year 1 the share price to be no less than 27 cents;
- b) in year 2 the share price to be no less than 35 cents; and
- c) in year 3 the share price to be no less than 45 cents.

Notes to the Financial Statements 31 July 2010

NOTE 38: Share-based payments (continued)

ESOP options are valued using a trinomial option pricing model. 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.

Set out below are summaries of options granted under the plan and the balance outstanding at the end of the financial year for the current and preceding years.

Options Granted - 2010

Option type	Option number	Number	Grant date	Expiry date	Exercise price	Grant date average fair value
4	37	1,000,000	01/04/2010	01/04/2015	\$0.207	\$0.119
4	38	750,000	01/04/2010	01/04/2015	\$0.207	\$0.119

Options Granted - 2009

Option type	Option number	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
3	35	4,000,000	10/08/2009	10/08/2014	\$0.135	\$0.072
3	36	1,000,000	10/08/2009	10/08/2014	\$0.135	\$0.072

Balance outstanding at the end of the financial year

2010

Option type	Option number	Grant date	Expiry date	Exercise price	Grant date average fair value	Balance at end of period
2	33	20/03/2008	02/09/2013	\$0.440	\$0.120	200,000
3	35	10/08/2009	10/08/2014	\$0.135	\$0.072	4,000,000
3	36	10/08/2009	10/08/2014	\$0.135	\$0.072	1,000,000
4	37	01/04/2010	01/04/2015	\$0.207	\$0.119	1,000,000
4	38	01/04/2010	01/04/2015	\$0.207	\$0.119	750,000
						6,950,000

2009

Option type	Option number	Grant date	Expiry date	Exercise price	Grant date average fair value	Balance at end of period
2	33	20/03/2008	02/09/2013	\$0.440	\$0.120	200,000
3	35	10/08/2009	10/08/2014	\$0.135	\$0.072	4,000,000
3	36	10/08/2009	10/08/2014	\$0.135	\$0.072	1,000,000
						5,200,000

Notes to the Financial Statements 31 July 2010

NOTE 38: Share-based payments (continued)

Fair value of options granted

Fair values have been determined 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 include:

Option Number	33	35	36	37	38
Grant Date	20/03/08	10/08/09	10/08/09	01/04/2010	01/04/2010
Vesting Date	31/03/11 & 31/08/11	10/08/09, 10/08/10 & 10/08/11	10/08/09, 10/08/10 & 10/08/11	09/11/10, 09/11/11 & 09/11/12	01/01/11, 01/01/12 & 01/01/13
Expiry Date	02/09/13	10/08/14	10/08/14	01/04/15	01/04/15
Exercise price	\$0.440	\$0.135	\$0.135	\$0.207	\$0.207
Stock Price at Issue	\$0.370	\$0.200	\$0.200	\$0.230	\$0.230
Expected Life (years)	4.3	4.4	4.4	4.4	4.4
Volatility	50%	60%	60%	72%	72%
Risk free rate	6.00%	6.60%	6.60%	5.48%	5.48%
Dividend yield	4.00%	4.00%	4.00%	4.00%	4.00%
Vesting period (years)	N/A	N/A	N/A	N/A	N/A
Average fair value	\$0.120	\$0.072	\$0.072	\$0.119	\$0.119

The following reconciles the outstanding share options granted under the executive share option plan at the beginning and end of the financial year:

	2010		2009	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at the beginning of the financial year	5,200,000	0.150	1,107,143	1.510
Granted during the financial year	1,750,000	0.207	5,000,000	0.135
Forfeited during the financial year	-	-	(907,143)	1.750
Exercised during the financial year	-	-	-	-
Expired during the financial year	-	-	-	-
Balance at the end of the financial year	6,950,000	0.164	5,200,000	0.150
Exercisable at the end of the financial year	-	-	-	-

No options were exercised during the current or preceding financial year.

The weighted average remaining contractual life of the share options outstanding as at 31 July 2010 is 4.16 years (31 December 2009: 4.58 years)

The weighted average fair value of options granted during the year was \$0.119 (31 December 2009: \$0.072).

Notes to the Financial Statements 31 July 2010

NOTE 38: Share-based payments (continued)

No executive options vested at the reporting date for the current or preceding financial year.

Aggregate proceeds received from executives on the exercise of options and recognised as issued capital in the financial period was \$Nil (2009:\$ Nil).

Market value of shares issued to executives on the exercise of options as at their issue date in the financial period was \$Nil (2009:\$Nil).

Employee Performance Share Rights

During 2005 the company established the Funtastic Employee Performance Share Rights Plan (EPSR).

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

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

EPSR Type 1

- a) 50% exercisable if the average diluted EPS reaches or exceeds 13% growth per annum over a three year period commencing five years prior to the expiry date;
- b) and remaining options will vest pro rata so that all options will be vested when the average diluted EPS reaches or exceeds 17% growth per annum over the same three year period; and
- c) executive remaining in employment at the date of vesting.

EPSR Type 2

In respect to one half of the EPSRs granted the following performance conditions are required to be achieved:

- a) for 50% to vest the average diluted earnings per share (EPS) growth rate over three years is required to be 11%p.a;
- b) for the remaining 50% to vest the average diluted EPS growth rate over three years is required to be 15%p.a;
- c) if the average annual diluted EPS growth rate over three years is between 11%p.a and 15%p.a, the options will vest proportionately from 50% up to 100% of the entitlement; and
- d) the employee being in continuous employment with the company until 31 March in the year following the three years.

In respect of the other half of the EPSRs granted the following performance conditions are required to be achieved:

- a) for 50% to vest, Funtastic's relative total shareholders return (TSR) during the three year period is required to be at least equal to the TSR achieved by the company which is the median of the companies in the Comparator Group ranked by TSR performance (The Comparator Group comprises the companies in the S&P ASX small ordinaries index at the start of the period);
- b) for the remaining 50% of the entitlement to vest, Funtastic's TSR has to be equal to or greater than the TSR of the company which is at the 75th percentile of the Comparator Group ranked by TSR performance during the three year period;
- c) for each percentile increase in Funtastic's TSR ranking above the median ranking up to the 75th percentile, an additional 2% vests up to 100%; and
- d) the employee being in continuous employment with the Company until 31 August in the year following the three years.

Notes to the Financial Statements 31 July 2010

NOTE 38: Share-based payments (continued)

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.

There were no rights granted under the plan during the current period or preceding financial year.

EPSR Balance outstanding at the end of the financial year

2010						Balance at end of Financial year
EPSR type	EPSR Number	Grant date	Expiry date	Exercise price	Fair value at grant date	
2	35	03/07/2008	02/09/2013	Nil	\$0.39	50,000
						50,000
2009						Balance at end of Financial year
EPSR type	EPSR Number	Grant date	Expiry date	Exercise price	Fair value at grant date	
2	31	29/06/2007	02/09/2012	Nil	\$1.82	35,000
2	35	03/07/2008	02/09/2013	Nil	\$0.39	115,000
						150,000

No Rights were vested at the reporting date.

Fair value of performance rights granted

Fair values have been 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.

Notes to the Financial Statements 31 July 2010

NOTE 38: Share-based payments (continued)

The model inputs for performance rights granted include:

EPSR Number	31	35
Issue Date	29/06/07	03/07/2008
Vesting Date	02/04/10 & 31/08/10	31/03/11 & 31/03/11
Expiry Date	02/09/10	02/09/11
Exercise price	\$0.00	\$0.00
Stock Price at Issue	\$1.82	\$0.50
Expected life (year)	3.18	2.9
Volatility	30%	60%
Risk free rate	5.8%	6.65%
Dividend yield	6.0%	4.0%
Value	\$1.82	\$0.38

The following reconciles the outstanding EPSRs granted under the employee performance share rights option plan at the beginning and end of the financial year:

	31 July 2010		31 December 2009	
	Number of EPSRs	Weighted average exercise price \$	Number of EPSRs	Weighted average exercise price \$
Balance at the beginning of the financial year	150,000	-	507,500	-
Granted during the financial year	-	-	-	-
Forfeited during the financial year	-	-	(332,500)	-
Exercised during the financial year	-	-	-	-
Expired during the financial year	(100,000)	-	(25,000)	-
Balance at the end of the financial year	50,000	-	150,000	-
Exercisable at the end of the financial year	-	-	-	-

No EPSRs were exercised during the current period or preceding financial year.

The fair value of shares issued on the exercise of rights 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 rights.

The weighted average remaining contractual life for the performance share rights as at 31 July 2010 is 3.09 years (2009:3.44 years).

During the period, no performance share rights were granted (2009: nil).

Notes to the Financial Statements 31 July 2010

NOTE 39: Key management personnel compensation

Details of key management personnel

The directors and other members of key management personnel of the Group during the year were:

Shane Tanner	Independent Non-executive director - appointed Chairman effective 21 May 2010
Graeme Yeomans	Chairman and Independent Non-executive director – resigned effective 21 May 2010
Stewart Downs	Managing director and Chief Executive Officer
Craig Mathieson	Non-executive director
Nir Pizmony	Executive director
James Flintoft	Independent Non-executive director - appointed effective 15 January 2010
Garry Mudford	General Manager TLM – redundant effective 2 September 2010
Tim Anderson	Joint General Manager - Entertainment
Paul Wiegard	Joint General Manager - Entertainment
Adam Kocks	General Manager Asia
James Cody	Chief Financial Officer

Key management personnel compensation

The aggregate compensation made to key management personnel of the Group is set out below:

	7 months ended 31 July 2010 \$	12 months ended 31 December 2009 \$
Short-term employee benefits	1,685,474	2,102,075
Post-employment benefits	107,493	281,294
Termination benefits	-	1,347,579
Share-based payment	94,107	(53,315)
	1,887,074	3,677,633

Notes to the Financial Statements 31 July 2010

NOTE 40: Related party transactions

a) Equity interests in related parties

Equity interests in subsidiaries.

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 34 to the financial statements.

b) Transactions with Key Management Personnel

Key management personnel compensation.

Details of key management personnel compensation are disclosed in Note 39 to the financial statements.

Loans to key management personnel.

There are no outstanding loans to key management personnel of the Group or to their related entities (2009: Nil)

Key management personnel equity holdings

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 key management personnel of the consolidated entity, including their related entities, are set out below.

7 months ended 31 July 2010	Balance at the start of the period	Granted during the period as remuneration	Exercised during the period	Other changes during the period i.e. forfeited/ lapsed	Balance at the end of the period	Vested and exercisable at the end of the period
Non-Executive Directors						
Graeme Yeomans ⁽¹⁾	-	-	-	-	-	-
Shane Tanner ⁽²⁾	-	-	-	-	-	-
Craig Mathieson	-	-	-	-	-	-
James Flintoft ⁽³⁾	-	-	-	-	-	-
Executive Directors						
Stewart Downs	4,200,000	-	-	-	4,200,000	-
Nir Pizmony	-	-	-	-	-	-
Executives						
Garry Mudford ⁽⁴⁾	1,000,000	-	-	-	1,000,000	-
Tim Anderson	-	-	-	-	-	-
Paul Wiegard	-	-	-	-	-	-
Adam Kocks	-	750,000	-	-	750,000	-
James Cody	-	1,000,000	-	-	1,000,000	-

(1) Mr G Yeomans- resigned effective 21 May 2010;

(2) Mr S Tanner- appointed Chairman effective 21 May 2010;

(3) Mr J Flintoft – appointed effective 15 January 2010; and

(4) Mr G Mudford – redundant effective 2 September 2010.

Notes to the Financial Statements 31 July 2010

NOTE 40: Related party transactions (continued)

12 months ended 31 December 2009	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year i.e. forfeited/ lapsed	Balance at the end of the year	Vested and exercisable at the end of the year
Non-Executive Directors						
Graeme Yeomans	-	-	-	-	-	-
Shane Tanner ⁽¹⁾	-	-	-	-	-	-
Craig Mathieson ⁽²⁾	-	-	-	-	-	-
Anthony Lynch ⁽³⁾	-	-	-	-	-	-
David Berry ⁽⁴⁾	-	-	-	-	-	-
Executive Directors						
Stewart Downs ⁽⁵⁾	200,000	4,000,000	-	-	4,200,000	-
Nir Pizmony ⁽⁶⁾	-	-	-	-	-	-
Tony Oates ⁽⁷⁾	750,000	-	-	(750,000)	-	-
Executives						
Garry Mudford ⁽⁸⁾	-	1,000,000	-	-	1,000,000	-
Adam Kocks	-	-	-	-	-	-
Chris Loverso ⁽⁹⁾	-	-	-	-	-	-
James Cody ⁽¹⁰⁾	-	-	-	-	-	-
Ray Dixon ⁽¹¹⁾	-	-	-	-	-	-
Paul Cannon ⁽¹²⁾	157,143	-	-	(157,143)	-	-
Jeff Hunter ⁽¹³⁾	-	-	-	-	-	-

(1) Mr S Tanner- appointed Independent non executive director effective 19 March 2009;

(2) Mr C Mathieson- appointed Non executive director effective 25 August 2009;

(3) Mr A Lynch – resigned effective 22 October 2009;

(4) Mr D Berry- resigned effective 20 October 2009;

(5) Mr S Downs – appointed CEO effective 19 February 2009 and Managing Director effective 25 August 2009;

(6) Mr N Pizmony- appointed Executive director effective 25 August 2009;

(7) Mr T Oates – resigned effective 19 February 2009;

(8) Mr G Mudford – appointed General Manager TLM effective 10 August 2009;

(9) Mr C Loverso – granted additional responsibility in respect of the Toy division across the company effective 1 May 2009.
Resigned effective 23 November 2009

(10) Mr J Cody- appointed CFO effective 16 November 2009;

(11) Mr R Dixon- contract expired effective 1 December 2009;

(12) Mr P Cannon - redundant effective 25 February 2009; and

(13) Mr J Hunter – resigned effective 19 February 2009.

Notes to the Financial Statements 31 July 2010

NOTE 40: Related party transactions (continued)

Performance Share Right holdings

The number of Performance Share Rights held during the financial year by each of the key management personnel of the Group including their related entities, are set out below.

7 months ended 31 July 2010	Balance at the start of the period	Granted during the period as remuneration	Exercised during the period	Other changes during the period i.e. forfeited/ lapsed	Balance at the end of the period	Vested and exercisable at the end of the period
Executives						
Stewart Downs	-	-	-	-	-	-
Garry Mudford ⁽²⁾	-	-	-	-	-	-
Tim Anderson	-	-	-	-	-	-
Paul Wiegard	-	-	-	-	-	-
Adam Kocks	20,000	-	-	-	20,000	-
James Cody	-	-	-	-	-	-

12 months ended 31 December 2009	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year i.e. forfeited/ lapsed	Balance at the end of the year	Vested and exercisable at the end of the year
Executives						
Stewart Downs ⁽¹⁾	-	-	-	-	-	-
Garry Mudford ⁽²⁾	-	-	-	-	-	-
Adam Kocks	20,000	-	-	-	20,000	-
Chris Loverso ⁽³⁾	20,000	-	-	(20,000)	-	-
James Cody ⁽⁴⁾	-	-	-	-	-	-
Ray Dixon ⁽⁵⁾	-	-	-	-	-	-
Paul Cannon ⁽⁶⁾	60,000	-	-	(60,000)	-	-
Tony Oates ⁽⁷⁾	-	-	-	-	-	-
Jeff Hunter ⁽⁸⁾	55,000	-	-	(55,000)	-	-

(1) Mr S Downs – appointed CEO effective 19 February 2009 and Managing Director effective 25 August 2009;

(2) Mr G Mudford – appointed General Manager TLM effective 10 August 2009, redundant 2 September 2010;

(3) Mr C Loverso – granted additional responsibility in respect of the Toy division across the company effective 1 May 2009. Resigned effective 23 November 2009

(4) Mr J Cody- appointed CFO effective 16 November 2009;

(5) Mr R Dixon- contract expired effective 1 December 2009;

(6) Mr P Cannon - redundant effective 25 February 2009;

(7) Mr T Oates – resigned effective 19 February 2009;

(8) Mr J Hunter – resigned effective 19 February 2009

Notes to the Financial Statements 31 July 2010

NOTE 40: Related party transactions (continued)

Share holdings

The numbers of shares in the company held during the financial year by each key management personnel of the Group, including their related entities, are set out below.

7 months ended 31 July 2010	Balance at the start of the period	Received during the period on the exercise of options	Shares purchased during the period	Received as consideration on acquisition of business	Shares sold during the period	Balance at the end of the period or date of retirement / resignation
Directors						
Shane Tanner	-	200,000	-	-	-	200,000
Graeme Yeomans	500,000	-	-	-	-	500,000
Stewart Downs	1,642,890	-	-	-	-	1,642,890
Craig Mathieson	87,880,947	-	3,150,365	-	-	91,031,312
Nir Pizmony	16,855,742	-	-	-	-	16,855,742
Janes Flintoft ⁽¹⁾	1,350,848	-	-	-	-	1,350,848
Executives						
Adam Kocks	30,000	-	-	-	-	30,000
James Cody	-	-	-	-	-	-
Tim Anderson	1,555,870	-	-	-	-	1,555,870
Paul Wiegard	1,555,870	-	-	-	-	1,555,870
Garry Mudford	250,000	-	-	-	-	250,000

12 months ended 31 December 2009	Balance at the start of the year	Received during the year on the exercise of options	Shares purchased during the year	Received as consideration on acquisition of business	Shares sold during the year	Balance at the end of the year or date of retirement / resignation
Directors						
Graeme Yeomans	250,000	-	250,000	-	-	500,000
Stewart Downs	821,445	-	821,445	-	-	1,642,890
Shane Tanner	-	-	-	-	-	-
Craig Mathieson ⁽¹⁾	1,570,219	-	86,310,728	-	-	87,880,947
Nir Pizmony ⁽¹⁾	6,855,742	-	-	10,000,000	-	16,855,742
Antony Lynch	69,380	-	70,186	-	-	139,566
David Berry	155,109	-	120,000	-	-	275,109
Tony Oates	818,938	-	-	-	-	818,938
Executives						
Ray Dixon	-	-	30,000	-	-	30,000
Adam Kocks	-	-	127,000	-	(97,000)	30,000
Chris Loverso	-	-	75,000	-	-	75,000
James Cody	-	-	-	-	-	-
Garry Mudford	-	-	250,000	-	-	250,000

(1) Represents shares owned prior to being appointed to the Company.

Notes to the Financial Statements 31 July 2010

NOTE 40: Related party transactions (continued)

c) Transactions with key management personnel of the Group

Profit for the year includes the following items of revenue and expense that resulted from transactions, other than compensation, loans or equity holdings, with key management personnel or their related entities:

	31 July 2010 \$	31 December 2009 \$
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Gross revenue	75	3,000
Interest revenue	-	-
Dividend revenue	-	-
	75	3,000
Consolidated profit includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Cost of goods sold	3,289,454	1,918,565
Warehouse & distribution	743,682	2,834,000
Marketing & Selling	139,130	115,000
Interest expense	-	-
Net amounts written off and allowances for doubtful receivables	-	-
	4,172,266	4,867,565
Total assets arising from transactions other than loans and amounts receivable in relation to equity instruments with key management personnel or their related parties:		
Current – Other (prepaid expenses)	513,578	13,515
Current – Inventories	152,104	50,000
Current – Trade receivables: Allowance for doubtful receivables	-	-
Non-current	-	-
	665,682	63,515
Total liabilities arising from transactions other than compensation with key management personnel or their related parties:		
Current	228,281	378,000
Non-current	-	-
	228,281	378,000

Notes to the Financial Statements 31 July 2010

NOTE 40: Related party transactions (continued)

During the financial period/year, the Group recognised the following transactions with key management personnel:

- Sales of \$75 (2009: \$3,000) to Petite Living Pty Limited a company related to Mr Craig Matheson and Mr Stewart Downs;
- Purchases of \$3,639,324 (2009: \$1,041,000) from Toymonster Limited a Hong Kong registered company related to Mr Nir Pizmony;
- Royalty payments of \$265,812 (2009: \$927,565) to Wild Pumpkin Royalties Pty Limited a company related to Mr Nir Pizmony;
- Salaries and wages of \$743,682 (2009: \$1,738,000) for the provision of casual labour to Premium Staffing Solutions Pty Limited a company related to Mr Craig Matheson;
- Rental expense of \$139,130 (2009: \$1,162,000) was paid to Jemasky Pty Limited a company related to Mr Nir Pizmony for the rental of office and warehouse space;
- As a result of the acquisition of NSR (HK) Limited a company related to Mr Nir Pizmony, the Group assumed responsibility for the loans advanced to NSR by its Shareholders. Under the terms of the acquisition, Funtastic Limited repaid \$650,000 of the shareholder loan at the date of completion i.e. 14 August 2009. A further US\$650,000 was paid to the NSR Shareholders of NSR on 4 January 2010.

d) Transactions with other related parties

Transactions between Funtastic Limited and other entities in the wholly-owned Group during the period ended 31 July 2010 and year ended 31 December 2009:

- Sales made by Funtastic Limited;
- loans advanced and interest charged by Funtastic Limited;
- management services provided by Funtastic Limited;
- management services provided to Funtastic Limited; and
- payment to/from Funtastic Limited for the above services.

NOTE 41: Remuneration of Auditors

	31 July 2010 \$	31 December 2009 \$
Auditor of the parent entity		
Audit and review of the financial reports of the entity	247,500	433,000
Other associated auditors	27,500	38,000
Preparation of tax return	32,600	39,000
Other services	25,000	142,977
	332,600	652,977

The auditor of Funtastic Limited is Deloitte Touche Tohmatsu.

Notes to the Financial Statements 31 July 2010

NOTE 42: Parent entity disclosures

Financial position

	31 July 2010 \$'000	31 December 2009 \$'000
Assets		
Current assets	97,020	91,967
Non-current assets	90,237	98,203
	187,257	190,170
Liabilities		
Current liabilities	27,086	49,941
Non-current liabilities	87,643	66,614
	114,729	116,555
Equity		
Issued capital	159,377	159,377
Accumulated losses	(87,745)	(86,590)
Reserves		
Currency translation	-	(1)
Equity-settled benefits	1,368	1,231
Cash flow hedging	(472)	(402)
	72,528	73,615

Financial performance

	7 months ended 31 July 2010 \$'000	12 months ended 31 December 2009 \$'000
Loss for the year	(1,155)	(84,030)
Other comprehensive income	68	1,314
Total comprehensive income	(1,087)	(82,716)

Notes to the Financial Statements 31 July 2010

NOTE 42: Parent entity disclosures (continued)

Commitments for expenditure

	31 July 2010 \$'000	31 December 2009 \$'000
<i>Lease commitments</i>		
Not later than one year	2,294	2,831
Later than one year but not later than two years	7,589	7,933
Later than two years but not later than five years	3,244	4,272
	13,127	15,036
<i>License guarantee commitments</i>		
Not later than one year	1,506	1,488
Later than one year but not later than two years	391	414
Later than two years but not later than five years	72	84
	1,969	1,986

NOTE 43: Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

NOTE 44: Contingent liabilities

A claim has been made against Funtastic Limited, and the Group, regarding a material contract. The directors are refuting that claim and Funtastic has made material claims against the other party. While the eventual outcome of this matter cannot be reliably estimated at this time, the directors are confident that there will not be any amount owing to the other party. Accordingly no provision has been recognised in the financial statements at year end.

Additional stock exchange information as at 20 September 2010

Distribution of equity securities

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

Range	Ordinary Shares		Performance share rights
	Holders	Options	
1 – 1,000	908	-	-
1,001 – 5,000	2,070	-	1
5,001 – 10,000	910	-	1
10,001 – 100,000	1,059	-	2
100,001 and over	137	4	-
	5,084	4	4

There are 1,961 shareholders holding less than a marketable parcel of ordinary shares.

Substantial holders

Substantial holders in the Company are set out below:

	Shares	%
KOORYONGKOOT PTY LTD <LAUREN MATHIESON FAMILY A/C>	83,605,620	24.52
BELL POTTER NOMINEES LTD <BB NOMINEES A/C>	48,466,276	14.21
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	21,193,168	6.22
J P MORGAN NOMINEES AUSTRALIA LIMITED	19,572,352	5.74
NATIONAL NOMINEES LIMITED	18,161,049	5.33
	190,998,465	56.02

Additional stock exchange information as at 20 September 2010

Twenty largest quoted equity security holders		Shares	%
1	KOOYONGKOOT PTY LTD <LAUREN MATHIESON FAMILY A/C>	83,605,620	24.52
2	BELL POTTER NOMINEES LTD <BB NOMINEES A/C>	48,466,276	14.21
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	21,193,168	6.22
4	J P MORGAN NOMINEES AUSTRALIA LIMITED	19,572,352	5.74
5	NATIONAL NOMINEES LIMITED	18,161,049	5.33
6	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	9,140,453	2.68
7	AC4 BELCO BVBA	7,761,318	2.28
8	RENSH PTY LTD	6,000,000	1.76
9	DDVM SUPERANNUATION NOMINEES PTY LTD <DDVM SUPERANNUATION FUND A/C>	5,700,438	1.67
10	STANLEY STREET PTY LTD	5,500,000	1.61
11	ARCHER CAPITAL 4A PTY LTD <ARCHER CAPITAL 4A A/C>	4,619,341	1.35
12	ARCHER CAPITAL 4B PTY LTD <ARCHER CAPITAL 4B A/C>	4,619,341	1.35
13	BOND STREET CUSTODIANS LIMITED <RXN - V42494 A/C>	4,613,995	1.35
14	MR HOD PIZEM	4,000,000	1.17
15	MR VINCENT MICHAEL O'SULLIVAN <O'SULLIVAN A/C>	3,450,000	1.01
16	MR CHRISTOPHER IAN WALLIN + MS FIONA KAY WALLIN <CHRIS WALLIN SUPERFUND A/C>	3,192,494	0.94
17	MR NIIR PIZMONY + MRS MARIA LUTGARDA PIZMONY <PIZMONY FAMILY SUPERFUND AC>	2,929,688	0.86
18	CITICORP NOMINEES PTY LIMITED	2,579,737	0.76
19	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	1,924,870	0.56
20	BOND STREET CUSTODIANS LIMITED <NBLTAW - V94372 A/C>	1,742,690	0.51
		258,772,830	75.88

Additional stock exchange information as at 20 September 2010

Unquoted equity securities	Number on Issue	Number of holders
Options issued under the Funtastic Executive Share Option Plan	5,950,000	3
Performance share rights issued under the Funtastic Employee Performance Share Rights Plan	55,000	4
No person holds 20% or more of the above securities		
Ordinary options – MGA Entertainment (HK) Limited	1,500,000	1

Voting Rights

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

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.

Options and Performance Share Rights

No voting rights.



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