Appendix 4E

Preliminary Final Report

Year ended 31 December 2008

funtastic LIMITED

Appendix 4E – Preliminary Final Report

Name of Entity:	Funtastic Limited
ABN:	94 063 886 199
Current Financial Period Ended:	Year ended 31 December 2008
Previous Corresponding Reporting Period:	Year ended 31 December 2007

Results for Announcement to the Market

	$'000	Percentage increase / (decrease) over previous corresponding period
Revenue from ordinary activities	368,217	(6.6)%
Net Profit / (Loss) for the period from continuing operations	(52,229)	(>100)%
Net Profit / (Loss) for the period from discontinuing operations	1,382	>100%
Net Profit / (Loss) for the period attributable to members of Funtastic Limited	(50,847)	(>100)%

Dividends	Amount per Security	Franked amount per security
Interim Dividend – Current reporting period	Nil	Nil
Final Dividend – Current reporting period	Nil	Nil
Record date for determining entitlements to dividends (if any)	Not applicable	
Date Dividend is payable	Not applicable	
Details of any dividend reinvestment plan in operation	The dividend reinvestment plan is in operation.	
The last date for receipt of an election notice for participation in any dividend reinvestment plan	Not applicable	

Net Tangible Assets	December 2008	December 2007
Net Tangible Assets per security	8 Cents	9 Cents

Brief explanation of any figures reported above necessary to enable the figures to be understood

Refer to the attached Review of Operations

Contents

Review of operations

Key factors for the year ended 31 December, 2008 include the following:

- EBITA from continuing operations of $28.1 million;
- Toy and Sporting business delivered a significant turnaround in profitability;
- Net bank debt down to $67.1 million from $85.1 million;
- Slow moving inventory almost halved from $22.6 million to $11.6 million;
- Recent announcement of a potential capital raising of $22 million fully underwritten; the net proceed to be used to reduce debt and fund a potential acquisition; and
- Significant one off expenditure and write-offs of $64.1 million after tax ($49.2 million non cash)

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

	Full Year			
	2008	**2007**	**Variance**	
$'000	**Actual**	**Actual**	**$**	**%**
Revenue				
Continuing operations	366,501	376,279	(9,778)	(2.6)%
Discontinued operations	1,716	18,051	(16,335)	(90.5)%
Group Revenue	**368,217**	**394,330**	**(26,113)**	**(6.6)%**
EBITA				
Continuing operations	28,051	28,953	(902)	(3.1)%
Discontinued operations	2,341	(855)	3,196	>100.0%
EBITA before significant items	**30,392**	**28,098**	**2,294**	**8.2%**
Significant items	(83,368)	(6,027)	(77,341)	>(100.0)%
Group EBITA	**(52,976)**	**22,071**	**(75,047)**	**>(100.0)%**
NPAT	(50,847)	5,153	(56,000)	>(100.0)%
Amortisation (after tax)	1,720	3,643	(1,923)	(52.8)%
NPAT (Before Amortisation)	(49,127)	8,796	(57,923)	>(100.0)%

Revenue from continuing operations was down by 2.6% for the year due to worsening economic conditions in the fourth quarter of 2008 and lower sales to the childcare industry mainly as a result of the receivership of the ABC Learning Care Group (ABC Group). In addition, following a strategic review of the Softgoods business, the Board made the decision to withdraw from the low margin generic Apparel business which has had the effect of reducing sales. Toys and Sporting increased revenue by 6.6% from last year. The DVD and Interactive Entertainment business recorded a strong result with a 30% plus increase in revenue.

Gross profit percentage for the year increased despite increased clearance activity in the first part of the year as a result of better management of input costs and improved inventory management.

The Toy and Sporting business delivered on our published objectives of "Returning Toys to Profitability" with an improvement in EBITA back to acceptable levels. This was achieved through improved execution at the retail level with a dedicated merchandising force; strong supply chain improvements in forecasting inventory levels; new controls and disciplines; and a significant increase in talent within the team.

Net cash flow from operating activities totalled $12.2 million (2007: $20.9 million) despite the non receipt of approximately $11.3 million as a result of the collapse of the ABC Group (Administrators and Receivers appointed). Net bank debt improved significantly, a decrease from $85.1 million to $67.1 million over the period.

Significant items

As a consequence of the current receivership of the ABC Group there was an urgent need to restructure both the Judius Australia and My Paintbox USA businesses. As a result, the Board has determined that the carrying value of the identifiable intangible asset of the Judius business was impaired on the basis of not being able to reasonably forecast future cash inflows to support the carrying value. While there is a possibility that Judius will continue to sell to ABC centres, given the current level of uncertainty surrounding the future of the ABC business, the Board has conservatively forecast no ABC Group related sales.

Goodwill has been impaired in both Softgoods and Toys NZ following the impairment assessment of each cash generating unit. As a result of this assessment, the carrying amount of the Softgoods and Toys New Zealand cash generating units were determined to be higher than the recoverable amounts.

In addition, the Board has recognised an additional impairment charge on material contracts and other contractual arrangements given the forecast sales over the life of those contracts not exceeding the carrying value of the intangible assets. These impairment charges total $13.7 million.

As a result of the above, the Board announced on 19 February, 2009 a range of significant one off items impacting the 2008 result. These are summarised as follows:

- ABC Group related ($54.8 million)
    - Trade receivables write off's of $11.3 million;
    - Impairment of intangibles of $36 million;
    - Restructure costs of Australia and USA of $7.5 million.
- Goodwill impairment ($14.4 million):
    - Softgoods of $13.1 million;
    - Toys NZ of $1.3 million.
- Impairment charges to material contracts of $13.7 million;
- Costs of $0.5 million incurred in connection with a proposed scheme of arrangement

After taking into account tax, the total impact on Funtastic's after tax profit was $64.1 million, of which $49.2 million were non cash charges.

Subsequent Events and Outlook

On 19 February, 2009 the Board announced a number of initiatives including the intention to complete a $22.0 million fully underwritten capital raising, the signing of a non-binding heads of agreement in relation to the potential acquisition of NSR (HK) Limited and senior management changes. The net proceeds of the capital raising will be used to fund the potential acquisition and retire debt.

The Board announced the appointment of Stewart Downs as the new Chief Executive Officer. Stewart was previously Group General Manager of Toys and Sporting and contributed to the turn around of this business back to profitability in 2008.

Further in the announcement the Board advised that its EBITA outlook for 2009 was materially lower than 2008 due to the potential loss of the ABC Group related business; the softer economic environment; and allowances for supply chain restructuring initiatives. 2009 EBITA could be potentially up to 40% lower than the prior year.

Dividends

Since the end of the year the directors have decided not to declare a final dividend.

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 Appendix 4E. Amounts in the Appendix 4E have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest.

Income Statement

For the year ended 31 December 2008

	Note	Consolidated 2008 $'000	2007 $'000
Revenue from continuing operations	3	**366,501**	376,279
Cost of sale of goods		**(239,577)**	(254,234)
Other expenses			
Warehouse and distribution		**(27,435)**	(33,685)
Marketing and selling		**(57,025)**	(46,720)
Administration		**(14,413)**	(18,718)
Amortisation		**(2,457)**	(5,204)
Finance costs		**(8,364)**	(9,180)
Significant items	4	**(83,368)**	-
Profit / (loss) before income tax	7	**(66,138)**	8,538
Income tax benefit / (expense)		**13,909**	(2,789)
Profit / (loss) for the year from continuing operations		**(52,229)**	5,749
Discontinued operations			
Profit / (loss) for the year from discontinued operations	9	**1,382**	(596)
Profit / (loss) for the year		**(50,847)**	5,153
		Cents	Cents
Earnings / (Loss) per share			
From continuing and discontinued operations:			
Basic (cents per share)	7	**(30.7)**	3.2
Diluted (cents per share)	7	**(30.7)**	3.2
From continuing operations:			
Basic (cents per share)		**(31.5)**	3.5
Diluted (cents per share)		**(31.5)**	3.5

The above income statements should be read in conjunction with the accompanying Notes.

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Balance Sheet

As at 31 December 2008

	Note	Consolidated 2008 $'000	2007 $'000
Current Assets			
Cash		**5,769**	2,726
Trade and other receivables		**56,225**	66,773
Inventories		**55,982**	53,469
Other assets		**28,714**	31,153
Current tax assets		**2,109**	6,231
Other financial assets		**-**	2,049
Total Current Assets		**148,799**	162,401
Non-Current Assets			
Property, plant and equipment		**6,019**	7,167
Goodwill		**97,634**	112,481
Other intangibles		**676**	39,133
Other assets		**-**	6,100
Deferred tax assets		**5,396**	4,797
Total Non-Current Assets		**109,725**	169,678
Total Assets		**258,524**	332,079
Current Liabilities			
Trade payables		**22,571**	18,203
Borrowings		**23,463**	37,779
Provisions		**9,251**	2,169
Interest bearing deferred purchase consideration		**2,261**	2,400
Other liabilities		**23,067**	24,423
Other financial liabilities		**2,305**	260
Total Current Liabilities		**82,918**	85,234
Non-Current Liabilities			
Borrowings		**49,370**	50,000
Provisions		**903**	950
Deferred tax liabilities		**9,083**	22,517
Interest bearing deferred purchase consideration		**4,469**	6,705
Total Non-Current Liabilities		**63,825**	80,172
Total Liabilities		**146,743**	165,406
Net Assets		**111,781**	166,673
Equity			
Issued capital	6	**137,201**	137,201
Retained profits / (accumulated deficit)	5	**(24,312)**	26,535
Reserves		**(1,108)**	2,937
Total Equity		**111,781**	166,673

The above balance sheet should be read in conjunction with the accompanying Notes.

Statement of Changes in Equity

For the year ended 31 December 2008

	Note	Consolidated 2008 $'000	2007 $'000
Total equity at the beginning of the year		**166,673**	121,455
Cash flow hedges, net of tax		**170**	350
Interest rate hedges, net of tax		**(3,039)**	808
Exchange differences on translation of foreign operations		**(548)**	(12)
Net income recognised directly in equity		**(3,417)**	1,146
Profit / (loss) for the year		**(50,847)**	5,153
Total recognised income and expense for the year		**(54,264)**	6,299
Transactions with equity holders in their capacity as equity holders:			
Share based payments		**(628)**	134
Contributions of equity, net of transaction costs		**-**	47,494
Dividends provided for or paid	8	**-**	(13,023)
Issue of shares in accordance with dividend reinvestment plan	8	**-**	4,314
Total equity at the end of the year		**111,781**	166,673

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

Cash Flow Statement

For the year ended 31 December 2008

	Note	Consolidated 2008 $'000	2007 $'000
Cash Flows from Operating Activities			
Receipts from customers (inclusive of GST)		**416,362**	430,769
Payments to suppliers and employees (inclusive of GST)		**(399,643)**	(397,308)
		16,719	33,461
Income taxes received / (paid)		**3,872**	(4,004)
Interest and other costs of finance paid		**(8,379)**	(8,574)
Net Cash Inflow from Operating Activities		**12,212**	20,883
Cash Flows from Investing Activities			
Interest received	3	**416**	231
Payments for acquisition of businesses		**(2,751)**	(7,613)
Payments for property, plant and equipment		**(2,169)**	(2,331)
Proceeds from sale of property, plant and equipment		**90**	30
Proceeds from sale of business		**10,178**	-
Net Cash Inflow / (Outflow) from Investing Activities		**5,764**	(9,683)
Cash Flows from Financing Activities			
Dividends paid	8	**-**	(8,709)
Proceeds from issue of shares	5	**-**	614
Repayment of borrowings		**(14,947)**	(2,911)
Repayment of hire purchase liabilities		**-**	(469)
Net Cash (Outflow) from Financing Activities		**(14,947)**	(11,475)
Net Increase / (decrease) in Cash Held		**3,029**	(275)
Cash and cash equivalents at the beginning of the year		**2,726**	3,025
Effect of exchange rate changes on cash held in foreign currencies		**14**	(24)
Cash and cash equivalents at the end of the year		**5,769**	2,726

The above cash flow statement should be read in conjunction with the accompanying Notes.

Notes to the Financial Statements
31 December 2008

NOTE 1:
Summary of significant accounting policies

This preliminary final report for the year ended 31 December 2008 has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Interpretations and the *Corporations Act 2001.*

This financial report does not include notes of the type normally included in an annual financial report. Accordingly, it is to be read in conjunction with the annual report for the year ended 31 December 2008 and any public announcements made by Funtastic Limited (the Company) during the year in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

The accounting policies adopted are consistent with those of the previous financial year. Comparatives for the year ended 31 December 2007 have been reclassified where necessary for consistency with current year disclosures.

NOTE 2:
Segment information

Business and Geographical segments

Funtastic Limited operates in one business and one geographical segment. Funtastic Limited is a wholesaler and distributor operating predominantly and materially in Australia.

NOTE 3:
Revenue

	Consolidated	
	2008	2007
	$'000	$'000
Revenue from the sale of goods		
Gross revenue	**394,396**	411,749
Less settlement discounts and rebates	**(36,738)**	(42,993)
	357,658	368,756
Interest from bank deposits	**416**	231
Commissions received	**974**	978
Other	**7,453**	6,314
	8,843	7,523
Continuing operations	**366,501**	376,279
Discontinued operations	**1,716**	18,051
Total Revenue from ordinary activities	**368,217**	394,330

NOTE 4:
Significant Items

The following significant items are included within the loss from continuing operations in the Income Statement for the year ended 31 December 2008:

	2008 $'000
ABC Group related:	
Trade receivable write off	11,348
Write down intangible assets	36,000
Provision for restructure costs – Australia & USA	7,453
Total ABC Group related	**54,801**
Goodwill impairment:	
Goodwill impairment - Softgoods	13,047
Goodwill impairment – Toys NZ	1,346
Total Goodwill impairment	**14,393**
Other:	
Impairment of material contracts	13,700
Costs associated with proposed takeover	474
Total Other	**14,174**
	83,368
Income tax benefit	**(19,289)**
Total Significant items	**64,079**

As a consequence of the current receivership of the ABC Group there was an urgent need to restructure both the Judius Australia and My Paintbox USA businesses. As a result the Board has determined that the carrying value of the identifiable intangible asset of the Judius business was impaired on the basis of not being able to reasonably forecast future cash inflows to support the carrying value. While there is a possibility that Judius will continue to sell to ABC centres, given the current level of uncertainty surrounding the future of the ABC business the Board has conservatively forecast no ABC Group related sales.

Goodwill has been impaired in both Softgoods and Toys NZ following the impairment assessment of each cash generating unit. As a result of this assessment, the carrying amount of the Softgoods and Toys New Zealand cash generating units, were determined to be higher than the recoverable amounts.

In addition, the Board has recognised an additional impairment charge on material contracts and other contractual arrangements given the recoverable value of forecast sales over the life of those contracts not exceeding the carrying value of the intangible assets. These impairment charges total $13.7 million.

NOTE 5:
Retained profits / (accumulated deficit)

	Consolidated	
	2008 $'000	2007 $'000
Opening balance	**26,535**	34,405
Net profit / (loss) after tax for the year	**(50,847)**	5,153
Dividends paid	**-**	(13,023)
Balance at end of financial year	**(24,312)**	26,535

Notes to the Financial Statements
31 December 2008

NOTE 6:
Equity securities issued

	2008 Shares	2007 Shares	2008 $'000	2007 $'000
Issue of ordinary shares during the year				
Exercise of options issued under the Funtastic Executive Share Option Plan	-	687,500	-	614
Share purchase plan	-	-	-	-
Dividend reinvestment plan issues	-	2,933,076	-	4,314
Issued on acquisition of Judius Group	-	29,117,647	-	46,880
	-	32,738,223	-	51,808

	Consolidated Number
Issue of share options under the Funtastic Executive Share Option Plan	
2008	
22 May 2008	**250,000**
20 March 2008	**200,000**
2007	
17 May 2007	250,000
29 June 2007	340,000
Issue of performance rights under the Funtastic Employee Performance Share Rights Plan	
2008	
3 July 2008	**292,500**
2007	
29 June 2007	342,500
Issue of Ordinary Options	
2008	**Nil**
2007	
31 January 2007	50,000

Reconciliation of issued ordinary shares and the issued capital account	**No. of shares**	**$'000**
Opening balance as at 31 December 2007	**165,498,841**	**137,201**
Exercise of Options under the Funtastic Executive share option plan	**-**	**-**
Closing balance as at 31 December 2008	**165,498,841**	**137,201**

Notes to the Financial Statements

31 December 2008

NOTE 7:

Earnings per share

	Consolidated	
	2008 Cents per share	**2007 Cents per share**
Basic earnings per share		
From continued operations	**(31.5)**	3.5
From discontinued operations	**0.8**	(0.3)
Total earnings / (loss) per share	**(30.7)**	3.2
Diluted earnings per share		
From continued operations	**(31.5)**	3.5
From discontinued operations	**0.8**	(0.3)
Total diluted earnings / (loss) per share	**(30.7)**	3.2

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of earnings per share are as follows:

	2008 $'000	2007 $'000
Net profit / (loss)	**(50,847)**	5,153
Earnings used in the calculation of basic EPS	**(50,847)**	5,153
Adjustments to exclude profit / (loss) for the period from discontinued operations	**1,382**	(596)
Earnings / (loss) used in the calculation of basic EPS from continuing operations	**(52,229)**	5,749

	2008 No. '000	**2007 No. '000**
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	**165,498**	160,003

Diluted earnings per share

The earnings used in the calculation of diluted earnings per share are as follows:

	2008 $'000	2007 $'000
Net profit / (loss)	**(50,847)**	5,153
Earnings used in the calculation of diluted EPS	**(50,847)**	5,153
Adjustments to exclude profit / (loss) for the period from discontinued operations	**1,382**	(596)
Earnings used in the calculation of diluted EPS from continuing operations	**(52,229)**	5,749

	2008 No. '000	**2007 No. '000**
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	**165,498**	163,003
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.	**165,498**	163,003

Notes to the Financial Statements

31 December 2008

NOTE 7: 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:

	2008 No. ’000	2007 No. ’000
Potential options non dilutive	-	952
	-	952

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

	2008 No. ’000	2007 No. ’000
Options to purchase ordinary shares pursuant to the employee share option plan	-	-
	-	-

NOTE 8:
Dividends

	2008 $’000	2007 $’000
Ordinary Shares		
Total Dividends provided for or paid	-	13,023
Dividends paid in cash or satisfied by the issues of shares under the dividend reinvestment plan during the year ended 31 December 2008 and 31 December 2007 are as follows:		
Paid in cash	-	8,709
Satisfied by issue of shares	-	4,314
	-	13,023
Dividends not recognised at the end of the year		
In addition to the above dividends, since the end of the year the Directors have recommended not to pay a final dividend (2007: Nil).	-	-

NOTE 9:
Discontinued operations

On the 20 February 2008 Funtastic Limited announced the sale of its Publishing business unit to Parragon Publishing Limited.

The sale price was negotiated at a premium to net assets with a profit on sale. The sale realised $10,178,000 in cash proceeds excluding debtors collections.

The profit / (loss) for the period from the discounted operations is analysed as follows:

	12 months ended 31 December 2008 $'000	12 months ended 31 December 2007 $'000
Profit / (loss) of publishing business for the period after tax	**(1,079)**	1,473
Gain on disposal of the publishing business after tax	**2,461**	-
Profit for the period from discontinued operations after tax	**1,382**	1,473

The following were the trading results of the publishing business for the period:

	12 months ended 31 December 2008 $'000	12 months ended 31 December 2007 $'000
Revenue	**1,716**	18,501
Operating expenses	**(3,546)**	(19,352)
Loss before income tax	**(1,830)**	(851)
Income tax expense	**751**	255
Loss after income tax	**(1,079)**	(596)

The net assets of the publishing business at the date of disposal were as follows:

	$'000
Total consideration	**10,178**
Less Net assets disposed of	**(4,178)**
Less Costs of disposal	**(1,788)**
Gain on disposal before tax	**4,212**
Satisfied by cash, and net cash inflow arising on disposal	**10,178**

NOTE 10:

Impairment

The Group performed impairment testing of goodwill during the twelve months ended 31 December 2008. As a result of this testing, the carrying amount of the Softgoods and Toys New Zealand cash generating units, were determined to be higher than the recoverable amounts. As a result the following impairment losses were recognised: Softgoods $13,047,500 (2007: Nil) and Toys NZ $1,346,000 (2007: Nil). The impairment loss was allocated fully to goodwill and is included in significant items.

NOTE 11:

Contingent liabilities

The company has no significant contingent liabilities that require disclosure in this Appendix 4E.

NOTE 12:

Subsequent events

On 19 February, 2009 the Board announced a number of initiatives including the intention to complete a $22 million fully underwritten capital raising, the signing of a non-binding heads of agreement in relation to the potential acquisition of NSR (HK) Limited and senior management changes. The net proceeds will be used to fund the potential acquisition and retire debt.

Compliance Statement

1. This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and other standards acceptable to ASX.
2. This report, and the accounts upon which the report is based (if separate), use the same accounting policies.
3. This report does give a true and fair view of the matters disclosed.
4. This report is based on accounts which are in the process of being audited
5. The entity has a formally constituted audit committee.

Graeme Yeomans - Director

Dated: