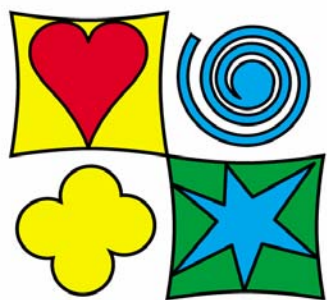


2008 Annual Report



funtastic
LIMITED

ACN 063 886 199

Message to Shareholders

Introduction.

On behalf of the Board of Directors of Funtastic Limited we present to you our 2008 Annual Report.

While the Company has experienced another year of challenge driven by uncertainty and significant changes, both economically and in the apparel sector, we are pleased to highlight the following achievements relating to key objectives identified in the strategic review process announced in early 2008:

1. The Toy and Sporting goods business showed a significant turnaround in 2008, driven by a revitalized team, improvements in processes, strong execution and a great product portfolio.
Clearance activity in the first six months particularly affected margins however, the strength of our brands enabled strong results at retail.
2. Slow moving inventory was almost halved by December, 2008 following the implementation of a new sales and operations planning process established early in the year which focused on strong disciplines.
3. The sale of the Publishing business in 2008 resulted in a further reduction in the levels of debt.
4. Reducing the level of debt has and will continue to be a key focus of management. Net bank debt reduced from \$85.1 million in 2007 to \$67.0 million in 2008, despite the non receipt of \$11.3 million from ABC Learning related receivables.

The Year in Review

Revenue from continuing operations was reasonably solid for the year - a good result considering the worsening economic conditions in the last quarter of 2008; lower sales to the childcare industry, mainly as a result of the Receivership of the ABC Group; and lower sales in the apparel business as we commenced withdrawing from low margin generic apparel.

The gross profit percentage for the year increased - another positive result given our clearance focus in the first part of the year; higher product costs in the last quarter; and the recent devaluation of the Australian dollar.

The Toy and Sporting goods business has returned to acceptable profitability on the strength of our brands and improved in store execution.

We expect the improvements made in reducing slow moving inventory to have a positive impact on 2009.

The Group's entertainment division also recorded a strong result, with Madman experiencing increased sales particularly in the last quarter.

Offsetting this strong performance was a disappointing result from the Apparel division due to the competitive nature of the industry, specifically impacted by low margin generic apparel and fluctuations in foreign exchange rates.

EBITA from continuing operations was solid year on year despite the worsening economic conditions experienced in the last quarter of 2008.

Net cash flow from operating activities totalled \$12.1 million (2007: \$20.9 million) despite the non receipt of approximately \$11.3 million in receivables as a result of the collapse of the ABC Learning Care Group. We are pleased that the company was able to decrease net bank debt from \$85.1 million to \$67.0 million.

Significant one-off write offs

A range of significant one off items and write offs impacting the 2008 result were incurred. These included the following:

- ABC Learning related trading receivables write off of \$11.3 million;
- Following a review of the viability of the educational toys and furniture business, Judius, restructuring provisions of \$4.2 million were taken. In addition the non cash unamortized portion of the exclusive contract with ABC of \$36.0 million less the deferred tax liability of \$10.8 million was written off;
- Provision for the closure of Funtastic's USA business – My Paint Box of \$3.0 million;
- Non cash impairment of the carrying value of goodwill for the Softgoods and the Toys New Zealand business of \$13.1 million and \$1.3 million respectively were provided for;
- Further non cash impairment charges to material contracts of \$13.7 million were taken. After taking into account tax, the total impact on Funtastic's after tax profit was \$63.5 million, of which \$49.2 million were non cash charges.

Message to Shareholders (continued)

Outlook for 2009

The Board of Directors has conducted a review and has put into place plans to deal with the challenging economic climate and higher input costs as a result of the weakening Australian Dollar. Given the softening retail environment and the potential loss of ABC Group related sales in 2009 the Board remains cautious and therefore has forecast EBITA for 2009 to be materially lower than the 2008 year.

The Board recently announced its intention to undertake a \$22 million fully underwritten rights issue and the acquisition of NSR (HK) Limited, an international toy distribution business. We expect that subject to satisfactory due diligence these two transactions will shortly be put to shareholders with the strong support of the Board.

We are pleased to have recently announced the appointment of Stewart Downs as the Company's new CEO. Stewart was instrumental in turning around our toy and sporting business in 2008 and we expect him to continue to make further positive changes to the Company in the near future.

The Directors would like to thank all of our staff and customers for their loyalty over 2008 and, in particular, Tony Oates for his commitment to the organisation during his 14 years of service.

We look forward to delivering positive returns to our shareholders in 2009 despite the tough economic climate.

A handwritten signature in black ink, appearing to read "G. Yeomans", with a horizontal line underneath.

Graeme Yeomans
Chairman of the Board

A handwritten signature in black ink, appearing to read "S. Downs", with a horizontal line underneath.

Stewart Downs
Chief Executive Officer

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Company Information

Directors

Graeme Yeomans

Chairman and Independent Non- Executive Director

David Berry BCom, FCA, FTIA

Non- Executive Director

Antony Lynch BCom

Independent Non-Executive Director

Shane Tanner FCPA, ACIS

Independent Non-Executive Director

Company Secretary

David Berry

Registered Office

635 Waverley Road

Glen Waverley, Vic 3150

Principal Administrative Office

635 Waverley Road

Glen Waverley, Vic 3150

Share Registry

Computershare Investor Services Pty Limited

Yarra Falls

452 Johnston Street

Abbotsford Vic 3067

Auditors

Deloitte Touche Tohmatsu

180 Lonsdale 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 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 2008 financial year.

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:

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

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 comprised four non-executive directors and one executive director (the Managing Director and Chief Executive Officer). The roles of Chairman and Chief Executive Officer are separate. The details of each director's qualifications, experience and skills are set out on page 6 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;
- the board comprised four Non-executive directors and one executive director; 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 is 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.

The majority of the board is considered to be independent as at the date of this report. Currently, one of the four directors is not independent. It is the board's view that Mr Antony Lynch, Mr Shane Tanner and Mr Graeme Yeomans are independent directors.

Mr. David Berry (Non-executive Director and Company Secretary) is deemed not to be independent due to Company Secretarial services provided to the Company.

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 four non executive directors, three of which are independent. David Berry is deemed not independent. He is the chairman of the committee and whilst he is not independent, he is currently the most suitably qualified person because of his background as a chartered accountant and registered company auditor. The board considers that three independent directors on the committee is sufficient for the independence of the committee.

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, 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 in periods other than in three trading windows per annum. The trading windows are for six weeks and commence following 48 hours after the public release of the half year, full year financial results and the update provided to Shareholders at the Annual General Meeting. Exceptions to this prohibition can be approved by the Chairman (for other directors) or the Company Secretary (for all other employees) in circumstances of financial hardship. Prohibitions also apply to financial instruments related to Funtastic shares and to trading in the shares of other entities using information obtained through employment with Funtastic.

In accordance with provisions of the *Corporations Act 2001 (Cth)* 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.

Nomination Committee

The current members of the Nomination Committee: are Graeme Yeomans (Chairman), Antony Lynch, David Berry and Shane Tanner.

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 David Berry (Chairman), Antony Lynch, Graeme Yeomans and Shane Tanner.

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 forming a policy on the provision of non-audit services and 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 report contains matters regarding its role and responsibilities and includes:

- the system of internal control, which management has established, effectively safeguards 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 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 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.

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 all areas of potential risk;
- adequate policies and procedures have been 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 not a dedicated internal audit function; however, independent contractor appointments are made to conduct internal control reviews and assessments as and when deemed appropriate by the Audit, Risk and Compliance Committee. In addition, the Board has recently appointed an Internal Audit Manager. 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 Antony Lynch (Chairman), and Graeme Yeomans.

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.

Remuneration 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

Your Directors present their report on the consolidated entity consisting of Funtastic Limited and the entities it controlled at the end of, or during, the year ended 31 December 2008.

Directors

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

Director	Particulars
Graeme Yeomans Chairman and Independent Non-executive director	Joined the Board in September 2007 as an Independent Non-executive director. Mr Yeomans is a member of the Remuneration and Evaluation Committee, member of the Audit, Risk and Compliance Committee and of the Nomination Committee. Mr Yeomans was appointed Interim Chairman of the Board on 24 September 2008.
David Berry Non-executive director and Company Secretary	Chartered Accountant who joined the Board in May 2000 as a Non-executive director. Mr Berry is Chairman of the Audit, Risk and Compliance Committee, a member of the Nomination committee and is also the Company Secretary.
Antony Lynch Independent Non-executive director	Appointed to the Board in May 2006 as an Independent Non-executive director. Mr Lynch is Chairman of the Remuneration and Evaluation Committee, member of the Audit, Risk and Compliance Committee and of the Nomination Committee.
Shane Tanner Independent Non-executive director	Appointed to the Board on 19 March 2009 as an Independent Non-executive director. Mr Tanner is a member of the Audit, Risk and Compliance Committee and of the Nomination Committee.
David Hendy Non-executive Chairman	Joined the Board in 1995. Mr Hendy was Chairman of the Nomination Committee and a member of the Remuneration and Evaluation Committee until his retirement on 24 September 2008.
Tony Oates Managing Director	Appointed to the Board in September 2004 and was also a member of the Nomination, Remuneration and Evaluation Committee until his resignation on 19 February 2009.

Directorships of other listed companies

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

Director	Company	Period
Graeme Yeomans	Sterihealth Limited	2005 to 2008
	Repco Limited	2006 to 2007
David Berry	None	
Antony Lynch	Clime Investment Management Limited (formerly Loftus Capital Partners Limited); and	1995 to 2006
	Webster Limited	2004 to 2005
Shane Tanner	Vision Group Holdings Limited	2001 to current
	Paragon Care Limited	2006 to current
	Sterihealth Limited	2001 to 2008
David Hendy	Danks Holdings Limited	Since 2007
	Repco Limited	2006 to 2007
Tony Oates	None	

Directors' Report (continued)

Company Secretary

Mr David Berry, BCom, FCA, FTIA, Non-executive director holds the position of Company Secretary.

Principal activities

The company's principal continuing activity during the year was a wholesaler and distributor operating predominantly in Australia.

Review of operations

Key matters impacting the results 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;
- Subsequent to year end, announcement of a potential capital raising of \$22 million fully underwritten; the net proceeds to be used to reduce debt and fund a potential acquisition;
- Impairment charges and restructuring costs of \$64.1 million after tax (\$49.2 million non cash); and
- Sale of the non-core publishing business for \$10.2 million (excluding debtors collections) generated a net gain before tax of \$4.2 million and contributed \$1.4 million in net profit after tax for discontinued operations.

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

	2008	Full Year 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	22,926	5,125	22.4%
Discontinued operations	2,341	(855)	3,196	>100.0%
EBITA before impairment charges and restructuring costs*	30,392	22,071	8,321	37.7%
Impairment charges and restructuring costs	(83,368)	-	(83,368)	>(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)%

*described as significant one offs in the message to shareholders

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.

Directors' Report (continued)

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.

Impairment & Restructuring Costs

As a consequence of the ABC Group entering receivership, 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 New Zealand 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 their 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 expenses 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, and
 - Restructure costs of Australia and USA of \$7.5 million.
- Goodwill impairment (\$14.4 million):
 - Softgoods of \$13.1 million, and
 - Toys New Zealand of \$1.3 million.
- Impairment charges to material contracts of \$13.7 million, and
- 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.

Directors' Report (continued)

Dividends

Since the end of the year the directors have decided not to declare a final dividend for the year ended 31 December 2008 (2007: 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.

Share Options

Share options and Performance Share Rights granted to directors and executives

During and since the end of the financial year an aggregate of 450,000 share options and 80,000 Performance Share Rights over unissued ordinary shares of Funtastic Limited were granted to the following directors and executives of the company as part of their compensation:

(a) Share Options

Directors and executives	Number of Options Granted	Issuing entity	Number of ordinary shares under option
Tony Oates ⁽¹⁾	250,000	Funtastic Limited	250,000
Stewart Downs ⁽²⁾	200,000	Funtastic Limited	200,000
Total	450,000		450,000

1. Mr T Oates resigned effective 19 February 2009; options granted to him were approved at the 2008 AGM;
2. Mr S Downs appointed GM Toys & Sporting 1 February 2008, appointed CEO effective 19 February 2009.

(b) Performance Share Rights

Executives	PSRs Granted	Issuing entity	Number of ordinary shares under option
Paul Cannon ⁽¹⁾	30,000	Funtastic Limited	30,000
Ed Medica	30,000	Funtastic Limited	30,000
Adam Kocks ⁽²⁾	20,000	Funtastic Limited	20,000
Jeff Hunter	30,000	Funtastic Limited	30,000
Total	110,000		110,000

1. Mr P Cannon made redundant effective 25 February 2009;
2. Mr A Kocks granted additional responsibility in respect of the supply chain across the company effective 1 January 2008.

Directors' Report (continued)

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	157,143	Ordinary	\$1.64	02/09/2011
Funtastic Limited	200,000	Ordinary	\$0.44	02/09/2013
Funtastic Limited	250,000	Ordinary	\$1.86	02/09/2011
Funtastic Limited	250,000	Ordinary	\$1.64	02/09/2013
Funtastic Limited	250,000	Ordinary	\$1.82	02/09/2012
Total ESOP Options	1,107,143			

(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) Employee Performance Share Rights (EPSRs)

Issuing entity	Number of ordinary shares under EPSR	Class of shares	Exercise Price of EPSRs	Expiry Date of EPSRs
Funtastic Limited	90,000	Ordinary	\$0.00	02/09/2009
Funtastic Limited	170,000	Ordinary	\$0.00	02/09/2010
Funtastic Limited	247,500	Ordinary	\$0.00	02/09/2011
Total EPSRs	507,500			

Issued on the Exercise of Options

No EPSRs, ESOP's or ordinary options were exercised during the year.

Indemnity of officers and auditors

During the financial year 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 year, 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.

Directors' Report (continued)

Meetings of Directors

The numbers of meetings of the company's directors held during the year ended 31 December 2008 and the number of meetings attended by each director were:

Number of Meetings Held	Board of directors		Audit, Risk and Compliance Committee		Remuneration and Evaluation Committee		Nomination Committee	
	A	B	A	B	A	B	A	B
G Yeomans ⁽¹⁾	21	23	4	5	3	3	-	-
D Berry	22	23	5	5	-	-	-	-
A Lynch	21	23	5	5	3	3	-	-
T Oates ⁽²⁾	21	23	-	-	-	-	-	-
D Hendy ⁽³⁾	16	16	-	-	2	2	-	-

(1) Mr G Yeomans - appointed Interim Chairman effective 24 September 2008;

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

(3) Mr D Hendy - retired effective 24 September 2008.

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

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

Directors' shareholdings

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	Share Options	Performance share rights
David Berry	155,109	-	-
Antony Lynch	69,380	-	-
Graeme Yeomans	250,000	-	-
Shane Tanner	-	-	-

Directors' Report (continued)

Remuneration Report

Details of key management personnel

The following persons acted as directors of the company during or since the end of the financial year:

Graeme Yeomans	Interim Chairman and Independent Non-executive director - appointed Interim Non-Executive Independent Chairman effective 24 September 2008.
David Berry	Non-executive director and Company Secretary.
Antony Lynch	Independent Non-executive director.
Shane Tanner	Independent Non-executive director - appointed 19 March 2009.
David Hendy	Chairman and Non-executive director - retired effective 24 September 2008.
Tony Oates	Managing Director – resigned effective 19 February 2009.

Other Key Management Personnel ("KMP") and the highest remunerated group and company executives for the 2008 financial year were:

Stewart Downs	Chief Executive Officer - appointed GM Toys & Sporting 1 February 2008, appointed CEO effective 19 February 2009.
Ray Dixon	Chief Financial Officer – appointed 28 April 2008. Permanent contract issued 21 December 2008.
Adam Kocks	General Manager Operations.
Tony Oates	Managing Director – resigned effective 19 February 2009.
Paul Cannon	General Manager Softgoods – redundant effective 25 February 2009.
Ed Medica	General Manager General Merchandise – resigned effective 26 December 2008.
Jeff Hunter	President Judius Worldwide – terminated effective 19 February 2009.
Karl Nixon	Chief Financial Officer – redundant 24 April 2008.
Mark Scott	General Manager International & Publishing - transferred on the sale of publishing business effective 19 February 2008.
Robert Vasy	General Manager Toys, Nursery & Sporting – resigned effective 14 January 2008.

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.

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.

Directors' Report (continued)

Remuneration Report (continued)

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 accessed 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 since 2001 have been the central performance measures for the company's incentive plans for executives since listing. Other measures include revenue growth, return on average funds employed, net operating cash flow, total shareholder return and other business objectives.

As the company's performance deteriorated the total Short Term Incentive ("STI") eligible payments made in 2008 were only 16% (\$180,000) of the total amount of STI's available (\$1,117,500) (2007: Nil). The long term financial incentive performance hurdle rates have not been achieved either in the financial years 2007 and 2008.

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

	12 Months ended				
	Dec 2008	Dec 2007	Dec 2006	Dec 2005	Dec 2004
NPAT (\$'000)	(52,229)	5,749	12,068	21,611	15,948
EPS Basic (Cents) ⁽ⁱ⁾	(31.5)	3.2	9.4	17.1	13.1
Diluted EPS (Cents) ⁽ⁱ⁾	(31.5)	3.2	9.4	16.2	12.3
Total Dividends (\$'000)	Nil	13,023	13,575	11,373	10,454
Year End Share Price	0.18	0.65	1.62	1.71	1.95
Shares on Issue	165,498,841	165,498,841	132,760,618	124,278,603	120,484,549
Market Capitalisation (\$'000)	29,790	106,747	214,408	212,516	234,945

(i) Basic & Diluted EPS from continuing operations

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 program (STI). Details are set out below of the amount available for the bonus and the performance conditions that were required to be satisfied in order for the bonus to be payable.

The STI plan is a cash-based plan that involves linking specific targets (predominantly financial) with the opportunity to earn incentives based on a percentage of fixed 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.

Directors' Report (continued)

Remuneration Report (continued)

In general, the performance measures for 2008 were based on NPAT, Inventory Levels and product category earnings. 2007 were based on targeted sales growth, NPAT, inventory levels, Return on Average Funds Employed, product category earnings, net operating cash flow and other business objectives. In 2007 and 2008 proportions applicable to each component and entitlement were determined according to the respective executive's level and area of responsibility.

Performance against these objectives was determined and incentives and entitlements assessed against the audited financial results.

Specific information relating to the percentage of the STI payable and the percentage of the awards at target level that was achieved for the Chief Executive Officer, Managing Director and executives of the group are set out in the table below.

Directors and executives	Cash Bonus \$	Maximum Available Bonus \$	Paid %	Forfeited %
Stewart Downs ⁽¹⁾	180,000	180,000	100%	0%
Adam Kocks ⁽²⁾	-	63,000	-	100%
Tony Oates ⁽³⁾	-	240,000	-	100%
Paul Cannon ⁽⁴⁾	-	82,500	-	100%
Ed Medica ⁽⁵⁾	-	78,000	-	100%
Jeff Hunter ⁽⁶⁾	-	160,000	-	100%
Karl Nixon ⁽⁷⁾	-	108,000	-	100%
Mark Scott ⁽⁸⁾	-	100,000	-	100%
Robert Vasy ⁽⁹⁾	-	106,000	-	100%

(1) Mr S Downs – appointed GM Toys & Sporting 1 February 2008, appointed CEO effective 19 February 2009; STI granted on 27/03/2009 in respect of meeting the relevant performance criteria.

(2) Mr A Kocks - granted additional responsibility in respect of the supply chain across the company effective 1 January 2008;

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

(4) Mr P Cannon – redundant effective 25 February 2009;

(5) Mr E Medica - resigned effective 26 December 2008;

(6) Mr J Hunter – terminated effective 19 February 2009;

(7) Mr K Nixon – redundant 24 April 2008;

(8) Mr M Scott – transferred upon sale of publishing business effective 19 February 2008;

(9) Mr R Vasy – resigned effective 14 January 2008.

The following executives were paid discretionary bonuses during the year which did not form part of the STI Plan:

- Mark Scott - the board awarded a \$100,000 discretionary bonus in recognition of the sale of the Publishing business. (Granted 19/03/2008)
- Adam Kocks – the board awarded a \$4,000 discretionary bonus in recognition of his efforts in the 2007 year, decided in 2008. (Granted 17/06/2008)
- Jeff Hunter – the board awarded a \$51,420 discretionary bonus in recognition of his efforts in the 2007 year, decided in 2008. (Granted 17/06/2008)

Directors' Report (continued)

Key management personnel compensation

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

	Short-term employee benefits				Post-employment benefits		Other long-term employee benefits	Termination benefits \$	Share-based payments		Consisting of options / PSRs %
	Salary and fees \$	Cash Bonus \$	Non-monetary benefits \$	Other \$	Super-annuation \$	Other \$			Options / PSRs \$	Total \$	
2008											
Directors											
Graeme Yeomans ⁽¹⁾	49,929	-	-	-	67,570	-	-	-	-	117,499	-
David Berry	105,096	-	-	-	47,583	-	-	-	-	152,679	-
Tony Oates ⁽²⁾	440,366	-	-	-	39,634	-	-	-	20,391	500,391	4.08
Antony Lynch	80,275	-	-	-	7,225	-	-	-	-	87,500	-
David Hendy ⁽³⁾	179,123	-	-	-	9,146	-	-	-	-	188,269	-
	854,789	-	-	-	171,158	-	-	-	20,391	1,046,338	
Executives											
Paul Cannon ⁽⁴⁾	252,294	-	-	-	22,706	-	-	-	7,768	282,768	2.75
Ray Dixon ⁽⁵⁾	329,770	-	-	-	1,248	-	-	-	-	331,018	-
Stewart Downs ⁽⁶⁾	303,599	180,000	-	-	27,324	-	-	-	2,951	513,874	0.57
Adam Kocks ⁽⁷⁾	187,973	4,000	-	-	14,494	-	-	-	1,283	207,750	0.62
Ed Medica ⁽⁸⁾	120,353	-	33,607	-	103,038	-	-	-	(12,362)	244,636	(5.05)
Karl Nixon ⁽⁹⁾	78,126	-	-	-	7,031	-	-	119,089	(66,602)	137,644	(48.38)
Jeff Hunter ⁽¹⁰⁾	330,243	51,420	-	-	11,444	-	-	-	9,508	402,615	2.36
Robert Vasy ⁽¹¹⁾	27,117	-	-	-	2,440	-	-	-	(63,176)	(33,619)	>100
Mark Scott ⁽¹²⁾	30,230	100,000	-	-	4,800	-	-	-	(28,501)	106,529	(26.75)
	1,659,705	335,420	33,607	-	194,525	-	-	119,089	(149,131)	2,193,215	
	2,514,494	335,420	33,607	-	365,683	-	-	119,089	(128,740)	3,239,553	

(1) Mr G Yeomans – appointed Interim Chairman effective 24 September 2008;

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

(3) Mr D Hendy – retired effective 24 September 2008;

(4) Mr P Cannon – redundant effective 25 February 2009;

(5) Mr R Dixon – appointed 28 April 2008 remuneration paid as fees to a third party consultancy until his appointment on a 12 month fixed term contract on 21 December 2008;

(6) Mr S Downs – appointed GM Toys & Sporting 1 February 2008, appointed CEO effective 19 February 2009;

(7) Mr A Kocks – granted additional responsibility in respect of the supply chain across the company effective 1 January 2008;

(8) Mr E Medica – resigned effective 26 December 2008;

(9) Mr K Nixon – made redundant 24 April 2008. Termination payment represents his redundancy payment based on service agreement notice period of 3 months and years of service;

(10) Mr J Hunter – terminated effective 19 February 2009;

(11) Mr R Vasy – resigned effective 14 January 2008; and

(12) Mr M Scott – transferred upon sale of Publishing business effective 19 February 2008.

Directors' Report (continued)

For information on share options and performance share rights granted to key management personnel refer to the tables on pages 22 and 23

	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 ¹ \$	Consisting of options / PSRs Total \$ %
2007										
Directors										
David Hendy	137,614	-	-	-	12,386	-	-	-	-	150,000 -
David Berry	80,320	-	-	-	4,679	-	-	-	-	84,999 -
Harry Boon	18,462	-	-	-	-	-	-	-	-	18,462 -
Moshe Meydan	41,250	-	-	-	-	-	-	-	-	41,250 -
Tony Oates	405,047	-	35,320	-	41,157	-	-	-	(1,982)	479,542 (0.41)
Antony Lynch	80,275	-	-	-	7,225	-	-	-	-	87,500 -
Graeme Yeomans	18,349	-	-	-	1,651	-	-	-	-	20,000 -
	781,317	-	35,320	-	67,098	-	-	-	(1,982)	881,753
Executives										
Paul Cannon	219,925	-	32,369	-	22,706	-	-	-	8,805	283,805 3.10
Colin Caulfield	246,675	-	12,256	-	23,303	-	-	-	(37,803)	244,431 (15.47)
Jeff Hunter	235,152	-	8,315	-	5,860	-	-	-	3,631	252,958 1.12
Ed Medica	207,339	-	34,000	-	18,661	-	-	-	8,136	268,136 3.03
Karl Nixon	230,872	-	16,834	-	22,294	-	-	-	(10,030)	259,970 (3.86)
Mark Scott	228,052	-	-	-	20,525	-	-	-	(4,709)	243,868 (1.93)
Robert Vasy	155,303	-	87,816	-	21,881	-	-	-	(12,918)	252,082 (5.12)
	1,523,318	-	191,590	-	135,230	-	-	-	(44,888)	1,805,250
	2,304,635	-	226,910	-	202,328	-	-	-	(46,870)	2,687,003

Directors' Report (continued)

Remuneration Report (continued)

Share Options / Share Performance Right Plans

Share Options / Share Performance Rights granted

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.

Options over un-issued ordinary shares of Funtastic Limited granted during the financial year to key management personnel were as follows:

Share Option	Grant date	Option number	Options granted	Expiry date	Exercise Price Per Option	Average Fair Value per option at grant date	% Forfeited	% Vested	Performance conditions
2008									
Directors									
Tony Oates	23/05/2008	34	250,000	02/09/2012	\$1.82	\$0.11	-	-	2
Executives									
Stewart Downs	20/03/2008	33	200,000	02/09/2013	\$0.44	\$0.12	-	-	2

Share Option	Grant date	Option number	Options granted	Expiry date	Exercise Price Per Option	Fair Value per option at grant date	% Forfeited	% Vested	Performance conditions
2007									
Directors									
Tony Oates	17/05/2007	30	250,000	02/09/2011	\$1.64	\$0.30	-	-	2
Executives									
Colin Caulfield ⁽ⁱ⁾	29/06/2007	32	170,000	02/09/2012	\$1.82	\$0.38	100%	-	2
Karl Nixon ⁽ⁱ⁾	29/06/2007	32	170,000	02/09/2012	\$1.82	\$0.38	100%	-	2

(i) Forfeited on resignation.

Directors' Report (continued)

Remuneration Report (continued)

Employee share options granted in previous years which impact current year remuneration are as follows:

Share Option	Grant date	Option number	Options granted	Expiry date	Exercise Price Per Option	Fair Value per option at grant date	% Forfeited	% Vested	Performance conditions
Karl Nixon	03/08/2005	20	116,949	31/03/2008	2.00	0.41	100%	-	1
Robert Vasy	03/08/2005	20	100,000	31/03/2008	2.00	0.41	100%	-	1
Tony Oates	11/05/2006	25	250,000	31/03/2011	1.86	0.22	-	-	1
Paul Cannon	15/08/2006	27	157,144	02/09/2011	1.64	0.30	100%	-	2
Karl Nixon	15/08/2006	27	170,000	02/09/2011	1.64	0.30	100%	-	2
Mark Scott	27/02/2006	24	100,000	02/04/2011	1.88	0.33	100%	-	1

Performance Share Rights granted during or since the financial year to key management personnel were as follows:

Performance Share Rights	Grant date	EPSR number	EPSR granted	Expiry date	Exercise Price Per EPSR	Fair Value per EPSR at grant date	% Forfeited	% Vested	Performance conditions
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Executives

2008

Paul Cannon	03/07/2008	35	30,000	02/09/2011	Nil	\$0.39	-	-	2
Adam Kocks	03/07/2008	35	20,000	02/09/2011	Nil	\$0.39	-	-	2
Ed Medica ⁽ⁱ⁾	03/07/2008	35	30,000	02/09/2011	Nil	\$0.39	100%	-	2
Jeff Hunter	03/07/2008	35	30,000	02/09/2011	Nil	\$0.39	-	-	2

(i) Forfeited on resignation.

Executives

2007

Paul Cannon	29/06/2007	31	30,000	02/09/2010	Nil	\$1.82	-	-	2
Jeff Hunter	29/06/2007	31	25,000	02/09/2010	Nil	\$1.82	-	-	2
Ed Medica ⁽ⁱ⁾	29/06/2007	31	30,000	02/09/2010	Nil	\$1.82	100%	-	2
Mark Scott ⁽ⁱ⁾	29/06/2007	31	30,000	02/09/2010	Nil	\$1.82	100%	-	2
Robert Vasy ⁽ⁱ⁾	29/06/2007	31	30,000	02/09/2010	Nil	\$1.82	100%	-	2

(i) Forfeited on resignation.

Directors' Report (continued)

Remuneration Report (continued)

Performance Share Rights granted in previous years which impact current year remuneration are as follows:

Performance Share Rights	Grant date	EPSR number	EPSR granted	Expiry date	Exercise Price Per EPSR	Fair Value per EPSR at grant date	% Forfeited	% Vested	Performance conditions
Robert Vasy	15/08/2006	26	30,000	02/09/2009	Nil	1.64	100%	-	2
Ed Medica	15/08/2006	26	25,000	02/09/2009	Nil	1.64	100%	-	2

Performance condition 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.

Performance condition 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%p.a;
- (b) for the remaining 50% to vest the average annual diluted EPS growth rate over a three year period, is required to be 15%p.a;
- (c) if the average annual growth in diluted EPS growth over the three year period, 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;
- (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).

Directors' Report (continued)

Remuneration Report (continued)

Value of options and/or performance share rights issued to directors and executives during the period

	Options / EPSRs Granted	Options / EPSRs Exercised	Options / EPSRs Lapsed	Value of options and / or EPSRs included in remuneration for the year	Percentage of total remuneration for the year that consists of options / EPSRs
	Value at grant date	Value at exercise date	Value at time of lapse		
	\$	\$	\$	\$	%
Stewart Downs ⁽¹⁾	23,000	-	-	2,951	0.88
Adam Kocks ⁽²⁾	7,800	-	-	1,283	0.62
Tony Oates ⁽³⁾	27,500	-	-	20,391	4.08
Paul Cannon ⁽⁴⁾	11,700	-	-	7,768	2.75
Ed Medica ⁽⁵⁾	11,700	-	15,300	(12,362)	(5.05)
Jeff Hunter ⁽⁶⁾	11,700	-	-	9,508	2.36
Karl Nixon ⁽⁷⁾	-	-	-	(66,602)	(39.37)
Robert Vasy ⁽⁸⁾	-	-	31,800	(63,176)	>100
Mark Scott ⁽⁹⁾	-	-	15,000	(28,501)	(26.75)

- (1) Mr S Downs – appointed GM Toys & Sporting 1 February 2008, appointed CEO effective 19 February 2009;
(2) Mr A Kocks – granted additional responsibility in respect of the supply chain effective 1 January 2008;
(3) Mr T Oates – resigned 19 February 2009;
(4) Mr P Cannon – redundant 25 February 2009;
(5) Mr E Medica – resigned effective 26 December 2008;
(6) Mr J Hunter – terminated effective 19 February 2009;
(7) Mr K Nixon – redundant 24 April 2008;
(8) Mr R Vasy – resigned effective 14 January 2008.
(9) Mr M Scott – transferred upon sale of publishing business effective 19 February 2008;

Directors' Report (continued)

Remuneration Report (continued)

The model inputs for options and EPSR's granted during the year ended 31 December 2008 include:

Option/EPsR Number	Option	EPsR	Option
Issue Date	20/03/2008	03/07/2008	23/05/2008
Vesting Date	31/03/2011 & 31/08/2011	31/03/2011 & 31/08/2011	28/02/2011 & 30/06/2011
Expiry Date	02/09/2013	02/09/2011	02/09/2012
Exercise price	\$0.44	Nil	\$1.82
Stock Price at Issue	\$0.37	\$0.50	\$0.66
Expected Life (years)	4.3	2.95	3.4
Volatility	50%	60%	60%
Risk free rate	6.0%	6.7%	6.6%
Dividend yield	4.0%	4.0%	4.0%
Average fair value	\$0.12	\$0.39	\$0.11

Shares provided on exercise of remuneration options

Details of ordinary shares in the company, issued during the current 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 consolidated entity are set out below.

Directors and executives	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year	Amount paid per share
2007			
Tony Oates	01/10/2007	150,000	\$0.88

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 year.

Directors' Report (continued)

Remuneration Report (continued)

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.

2008	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	-	-	-	-	-	-
David Berry	-	-	-	-	-	-
Anthony Lynch	-	-	-	-	-	-
David Hendy	-	-	-	-	-	-
Executive Directors						
Tony Oates ⁽¹⁾	500,000	250,000	-	-	750,000	-
Executives						
Stewart Downs ⁽²⁾	-	200,000	-	-	200,000	-
Ray Dixon	-	-	-	-	-	-
Adam Kocks	-	-	-	-	-	-
Paul Cannon ⁽³⁾	157,143	-	-	-	157,143	-
Ed Medica	-	-	-	-	-	-
Jeff Hunter	-	-	-	-	-	-
Karl Nixon ⁽⁴⁾	390,000	-	-	(390,000)	-	-
Mark Scott ⁽⁵⁾	100,000	-	-	(100,000)	-	-
Robert Vasy ⁽⁶⁾	75,000	-	-	(75,000)	-	-

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

(2) Mr S Downs – appointed GM Toys & Sporting 1 February 2008, appointed CEO effective 19 February 2009

(3) Mr P Cannon – made redundant effective 25 February 2009;

(4) Mr K Nixon – made redundant 24 April 2008;

(5) Mr M Scott – transferred upon sale of publishing business effective 19 February 2008;

(6) Mr R Vasy – resigned effective 14 January 2008.

Directors' Report (continued)

Remuneration Report (continued)

	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
2007						
Non-Executive Directors						
David Hendy	-	-	-	-	-	-
Harry Boon	-	-	-	-	-	-
Moshe Meydan	-	-	-	-	-	-
David Berry	-	-	-	-	-	-
Anthony Lynch	-	-	-	-	-	-
Graeme Yeomans	-	-	-	-	-	-
Executive Directors						
Tony Oates	400,000	250,000	(150,000)	-	500,000	-
Executives						
Paul Cannon	157,143	-	-	-	157,143	-
Colin Caulfield	312,373	170,000	-	(482,373)	-	-
Jeff Hunter	-	-	-	-	-	-
Ed Medica	-	-	-	-	-	-
Karl Nixon	336,949	170,000	-	(116,949)	390,000	50,000
Mark Scott	100,000	-	-	-	100,000	-
Robert Vasy	175,000	-	-	(100,000)	75,000	75,000

Directors' Report (continued)

Remuneration Report (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 consolidated entity, including their related entities, is set out below.

2008	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	-	-	-	-	-	-
Ray Dixon	-	-	-	-	-	-
Adam Kocks ⁽¹⁾	-	20,000	-	-	20,000	-
Tony Oates	-	-	-	-	-	-
Paul Cannon ⁽²⁾	30,000	30,000	-	-	60,000	-
Ed Medica ⁽³⁾	55,000	30,000	-	(85,000)	-	-
Jeff Hunter ⁽⁴⁾	25,000	30,000	-	-	55,000	-
Karl Nixon	-	-	-	-	-	-
Robert Vasy ⁽⁵⁾	60,000	-	-	(60,000)	-	-
Mark Scott ⁽⁶⁾	30,000	-	-	(30,000)	-	-

(1) Mr A Kocks - granted additional responsibility in respect of the supply chain across the company effective 1 January 2008;

(2) Mr P Cannon – made redundant effective 25 February 2009;

(3) Mr E Medica – resigned effective 26 December 2008;

(4) Mr J Hunter – terminated effective 19 February 2009;

(5) Mr R Vasy – resigned effective 14 January 2008;

(6) Mr M Scott – transferred upon sale of publishing business effective 19 February 2008.

2007	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						
Paul Cannon	-	30,000	-	-	30,000	-
Jeff Hunter	-	25,000	-	-	25,000	-
Ed Medica	25,000	30,000	-	-	55,000	-
Robert Vasy	30,000	30,000	-	-	60,000	-
Mark Scott	-	30,000	-	-	30,000	-

Directors' Report (continued)

Remuneration Report (continued)

Share holdings

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

2008	Balance at the start of the year	Received during the year on the exercise of options	Shares purchased during the year	Shares sold during the year	Balance at the end of the year or date of retirement / resignation
Directors					
Graeme Yeomans	250,000	-	-	-	250,000
David Berry	155,109	-	-	-	155,109
Antony Lynch	20,000	-	49,380	-	69,380
Tony Oates ⁽¹⁾	818,938	-	-	-	818,938
David Hendy ⁽²⁾	2,599,650	-	-	-	2,599,650
Executives					
Stewart Downs ⁽³⁾	-	-	636,388	(50,000)	586,388
Karl Nixon ⁽⁴⁾	50,000	-	-	-	50,000

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

(2) Mr D Hendy- retired effective 24 September 2008;

(3) Mr S Downs – appointed GM Toys & Sporting 1 February 2008, appointed CEO effective 19 February 2009;

(4) Mr K Nixon – made redundant 24 April 2008.

2007	Balance at the start of the year	Received during the year on the exercise of options	Shares purchased during the year	Shares sold during the year	Balance at the end of the year or date of retirement / resignation
Directors					
David Hendy	4,599,650	-	-	(2,000,000)	2,599,650
David Berry	183,314	-	5,224	(33,429)	155,109
Harry Boon	20,000	-	-	-	20,000
Antony Lynch	13,267	-	-	-	13,267
Moshe Meydan	7,946,479	-	-	(1,500,000)	6,446,479
Tony Oates	608,938	150,000	60,000	-	818,938
Graeme Yeomans	-	-	250,000	-	250,000
Executives					
Colin Caulfield	412,680	-	-	(349,016)	63,664
Karl Nixon	50,000	-	-	-	50,000

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 Employee Performance Share Rights Plan.

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

Graeme Yeomans - Interim Chairman and Independent Non-executive Director

- Term of the agreement - full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2008 of \$150,000.
- Payment of a termination benefit on early termination by the employer is not applicable.

David Berry - Non-executive Director and Company Secretary

- Term of the agreement - full-time permanent and no specific term.
- Base salary, inclusive of superannuation, for the year ended 31 December 2008 of \$85,000.
- Payment of a termination benefit on early termination by the employer is not applicable.

Antony Lynch – Independent Non-executive Director

- Term of the agreement - full-time permanent and no specific term.
- Base salary, inclusive of superannuation, for the year ended 31 December 2008 of \$87,500.
- Payment of a termination benefit on early termination by the employer is not applicable.

Stewart Downs – Chief Executive Officer - (appointed 1 February 2008 and appointed CEO effective 19 February 2009)

- Term of the agreement - full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2008 of \$360,000.
- 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.

Ray Dixon - Chief Financial Officer – (appointed 28 April 2008 remuneration paid as fees to a third party consultancy unit until his appointment on a 12 month fixed term contract on 21 December 2008)

- Term of the agreement – appointed 28 April 2008. Services were provided through a contract with a third party organisation. Remuneration was paid as fees.
- On 21 December 2008 a fixed term contract of 1 year was entered into for a base salary of \$340,000.
- Contracting amount was \$2,000 per day.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 3 months base salary.
- Notice period is 3 months.

Directors' Report (continued)

Remuneration Report (continued)

Adam Kocks - General Manager - Operations

- Term of the agreement – full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2008 of \$210,000.
- 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.

David Hendy - Chairman of the Board - (retired 24 September 2008)

- Term of the agreement - full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2008 of \$150,000.
- Payment of a termination benefit on early termination by the employer is not applicable.

Tony Oates - Managing Director - (resigned effective 19 February 2009)

- Term of the agreement – full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2008 of \$480,000.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 3 months base salary.
- Termination payment of \$850,000 was made at the time of resignation which is equivalent to 21 months salary. The payment represented a combination of confidential, restraint of trade and termination. The termination payment was 3 months which was in accordance with his employment contract.

Paul Cannon - General Manager – Softgoods - (redundant effective 25 February 2009)

- Term of the agreement - full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2008 of \$275,000.
- 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.

Ed Medica - General Manager- General Merchandise – (resigned effective 26 December 2008)

- Term of the agreement - full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2008 of \$260,000.
- 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.

Jeff Hunter – President – Judius Worldwide – (terminated effective 19 February 2009)

- Term of the agreement - full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2008 of \$345,000
- 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.

Directors' Report (continued)

Remuneration Report (continued)

Karl Nixon – Chief Financial Officer – (redundant effective 24 April 2008)

- Term of the agreement - full-time permanent and no specific term.
- Base salary of \$270,000 inclusive of super.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 3 months base salary and years of service.
- Notice period 3 months.

Robert Vasy – General Manager Toys, Nursery & Sporting – (resigned effective 14 January 2008)

- Term of the agreement - full-time permanent and no specific term.
- Base salary of \$265,000 inclusive of super.
- Payment of termination benefit on early termination by the employer is not applicable
- Notice period 4 weeks.

Mark Scott – General Manager International & Publishing – (transferred on the sale of publishing business effective 19 February 2008)

- Term of the agreement - full-time permanent and no specific term.
- Base salary of \$253,000 inclusive of super.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 4 weeks base salary.
- Notice period 4 weeks.

Directors' Report (continued)

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 42 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 42 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 Auditors' Independence Declaration as required under section 307C of the *Corporations Act 2001 (Clth)* is set out on page 37 of this annual report.

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



Graeme Yeomans

Chairman

Melbourne

Date: 30 March 2009

Auditors' Independence Declaration



Deloitte Touche Tohmatsu
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The Board of Directors
Funtastic Limited
635 Waverley Road
GLEN WAVERLEY VIC 3150

30 March 2009

Dear Members of the Board


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 year ended 31 December 2008, 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
T Imbesi
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

Liability limited by a scheme approved under Professional Standards Legislation.

Independent Auditor's Report



Deloitte Touche Tohmatsu
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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 balance sheet as at 31 December 2008, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 40 to 116.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2 the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes complies 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. These Auditing 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 and fair presentation of the financial report 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.

Member of
 Deloitte Touche Tohmatsu

Liability limited by a scheme approved under Professional Standards Legislation.

Independent Auditor's Report (continued)

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

- (a) the financial report of Funtastic Limited is in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and
 - b. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.


Report on the Remuneration Report

We have audited the Remuneration Report included on pages 19 to 35 of the directors' report for the year ended 31 December 2008. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Funtastic Limited for the year ended 31 December 2008, complies with section 300A of the *Corporations Act 2001*.


DELOITTE TOUCHE TOHMATSU


T Imbesi
Partner
Chartered Accountants
Melbourne, 30 March 2009

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) 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 company and the group; and
- (c) 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. 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 35 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

A handwritten signature in black ink, appearing to read 'G Yeomans', with a horizontal line underneath.

Graeme Yeomans

Chairman

Date: 30 March 2009

Income statement

For the year ended 31 December 2008

	Note	Consolidated		Company	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Continuing operations					
Revenue	5	366,501	376,279	310,250	277,837
Cost of sale of goods		(239,577)	(254,234)	(211,328)	(198,933)
Other expenses					
Warehouse and distribution		(27,435)	(33,685)	(22,320)	(25,104)
Marketing and selling		(57,025)	(46,720)	(46,832)	(26,846)
Administration		(14,413)	(18,718)	(11,605)	(15,383)
Amortisation		(2,457)	(5,204)	(129)	(958)
Finance costs	9	(8,364)	(9,180)	(7,126)	(7,880)
Impairment and restructuring costs	6	(83,368)	-	(27,221)	-
(Loss)/profit before income tax	7	(66,138)	8,538	(16,311)	2,733
Income tax benefit/(expense)	8	13,909	(2,789)	1,199	1,476
(Loss)/profit for the period from continuing operations		(52,229)	5,749	(15,112)	4,209
Discontinued operations					
Profit/(loss) for the period from discontinued operations	34	1,382	(596)	1,382	(596)
(Loss)/Profit for the year		(50,847)	5,153	(13,730)	3,613
Earnings per share		Cents	Cents		
From continuing and discontinued operations:					
Basic (cents per share)	30	(30.7)	3.2		
Diluted (cents per share)	30	(30.7)	3.2		
From continuing operations:					
Basic (cents per share)	30	(31.5)	3.5		
Diluted (cents per share)	30	(31.5)	3.5		

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

Balance sheet

As at 31 December 2008

		Consolidated		Company	
	Note	2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Current Assets					
Cash	37	5,769	2,726	3,440	519
Trade and other receivables	10	56,225	66,773	49,943	43,596
Inventories	11	55,982	53,469	43,501	35,374
Other	12	28,714	31,153	13,739	18,395
Current tax assets	13	2,109	6,231	1,097	5,397
Other financial assets	14	-	-	2,366	5,419
Total Current Assets		148,799	160,352	114,086	108,700
Non-Current Assets					
Property, plant and equipment	15	6,019	7,167	5,479	5,880
Investments	16	-	-	58,936	99,951
Goodwill	17	97,634	112,481	69,570	56,273
Other intangibles	18	676	39,133	626	755
Other	19	-	6,100	-	6,100
Deferred tax assets	8	5,396	4,797	3,850	3,137
Other financial assets	14	-	2,049	-	2,049
Total Non-Current Assets		109,725	171,727	138,461	174,145
Total Assets		258,524	332,079	252,547	282,845
Current Liabilities					
Trade payables	21	22,571	18,203	20,770	11,561
Borrowings	22	23,463	37,779	13,442	26,288
Provisions	23	9,251	2,169	1,748	1,465
Deferred purchase consideration	24	2,261	2,400	2,261	2,400
Other	25	23,067	24,423	16,935	14,887
Other Financial Liabilities	26	11	260	1,402	9,894
Total Current Liabilities		80,624	85,234	56,558	66,495
Non-Current Liabilities					
Borrowings	22	49,370	50,000	49,370	50,000
Provisions	23	903	950	802	769
Deferred tax liabilities	8	9,083	22,517	4,899	7,332
Deferred purchase consideration	24	4,469	6,705	4,469	6,705
Other Financial Liabilities	26	2,294	-	2,294	-
Total Non-Current Liabilities		66,119	80,172	61,834	64,806
Total Liabilities		146,743	165,406	118,392	131,301
Net Assets		111,781	166,673	134,155	151,544
Equity					
Issued capital	27	137,201	137,201	137,201	137,201
(Accumulated losses)/retained profits	28	(24,312)	26,535	(2,560)	11,170
Reserves	29	(1,108)	2,937	(486)	3,173
Total Equity		111,781	166,673	134,155	151,544

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

Statement of changes in equity

For the year ended 31 December 2008

	Note	Consolidated		Company	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Total equity at the beginning of the year		166,673	121,455	151,544	107,937
Foreign exchange hedges, net of tax		170	350	8	268
Interest rate hedges, net of tax		(3,039)	808	(3,039)	807
Exchange differences on translation of foreign operations		(548)	(12)	-	-
Net (expense)/income recognised directly in equity		(3,417)	1,146	(3,031)	1,075
(Loss)/profit for the year		(50,847)	5,153	(13,730)	3,613
Total recognised income and expense for the year		(54,264)	6,299	(16,761)	4,688
Transactions with equity holders in their capacity as equity holders:					
Share-based payments		(628)	134	(628)	134
Contributions of equity		-	47,494	-	47,494
Dividends provided for or paid		-	(13,023)	-	(13,023)
Issue of shares in accordance with dividend reinvestment plan		-	4,314	-	4,314
Total equity at the end of the year		111,781	166,673	134,155	151,544

The above statements 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		Company	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Cash Flows from Operating Activities					
Receipts from customers (inclusive of GST)		416,362	430,769	345,624	319,033
Payments to suppliers and employees (inclusive of GST)		(399,643)	(397,308)	(332,163)	(284,116)
		16,719	33,461	13,461	34,917
Income taxes received/(paid)		3,872	(4,004)	3,751	(3,158)
Interest and other costs of finance paid		(8,379)	(8,574)	(7,140)	(7,275)
Net Cash Inflow/(Outflow) from Operating Activities	37	12,212	20,883	10,072	24,484
Cash Flows from Investing Activities					
Interest received		416	231	408	195
Payments for acquisition of businesses		(2,751)	(7,613)	(2,274)	(8,411)
Payments for property, plant and equipment		(2,169)	(2,331)	(2,077)	(1,502)
Proceeds from sale of property, plant and equipment		90	30	90	14
Amounts advanced to controlled entities		-	-	-	(4,407)
Proceeds from sale of business		10,178	-	10,178	-
Net Cash Inflow/(Outflow) from Investing Activities		5,764	(9,683)	6,325	(14,111)
Cash Flows from Financing Activities					
Dividends paid	31	-	(8,709)	-	(8,709)
Proceeds from issue of shares		-	614	-	614
Net repayment of borrowings		(14,947)	(2,911)	(13,476)	(2,021)
Repayment of hire purchase liabilities		-	(469)	-	(350)
Net Cash (Outflow) from Financing Activities		(14,947)	(11,475)	(13,476)	(10,466)
Net Increase / (Decrease) in Cash Held		3,029	(275)	2,921	(93)
Cash and cash equivalents at the beginning of the year		2,726	3,025	519	612
Effect of exchange rate changes on cash held in foreign currencies		14	(24)	-	-
Cash and cash equivalents at the end of the year	37	5,769	2,726	3,440	519

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

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. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below.

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

- Revised AASB 101 *'Presentation of Financial Statements'*
Effective for annual reporting periods beginning on or after 1 January 2009.
- AASB 2008-5 *Amendment to Australian Accounting Standards arising from the Annual Improvements Process*
Effective for annual reporting periods beginning on or after 1 January 2009.
- AASB 2008-7 *Amendment to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
Effective for annual reporting periods beginning on or after 1 January 2009.
- AASB 2008-1 *Amendment to Australian Accounting Standards - Share-based Payments: Vesting conditions and Cancellations*
Effective for annual reporting periods beginning on or after 1 January 2009.
- Revised AASB 123 *'Borrowing Cost'*
Effective for annual reporting periods beginning on or after 1 January 2009.
- Revised AASB 3 *'Business Combinations'*
Effective for annual reporting periods beginning on or after 1 July 2009.
- Revised AASB 127 *'Consolidated and Separate Financial Statements'*
Effective for annual reporting periods beginning on or after 1 July 2009.
- AASB 2008-6 *Amendment to Australian Accounting Standards arising from the Annual Improvements Process*
Effective for annual reporting periods beginning on or after 1 July 2009.
- AASB 8 *Operating Segments*
Effective for annual reporting periods beginning on or after 1 January 2009.
- AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*
Effective for annual reporting periods beginning on or after 1 January 2009.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will not have a material impact on the financial statements of the company or consolidated entity, unless specifically mentioned above.

NOTE 2: Significant accounting policies**Statement of compliance**

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001 (Clth)*, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the company and the consolidated financial statement 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 company and the group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 30 March 2009.

Basis of preparation

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

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. In the separate financial statements of the company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items.

NOTE 2: Significant accounting policies (continued)
(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 8 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.

NOTE 2: Significant accounting policies (continued)
(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 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 3rd 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) Depreciation of 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.

NOTE 2: Significant accounting policies (continued)

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 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 in 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 where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

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

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the 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 ownership of the asset, the life of the asset. Lease assets held at the reporting date are being amortised over five years.

NOTE 2: Significant accounting policies (continued)

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) Leasehold improvements

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

(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 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) 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.

NOTE 2: Significant accounting policies (continued)

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.

(iv) 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.

(v) 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

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill (refer to Note 2 (r)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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

NOTE 2: Significant accounting policies (continued)
(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.

(r) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

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 foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 38 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.

Note 38 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 hedge

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

NOTE 2: Significant accounting policies (continued)

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

Investments are recognised on trade date where the purchase of an investment 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, net of transaction costs except for those financial assets classified as fair value through profit or loss which are initially measured at fair value.

Investments in subsidiaries are measured at cost in the company financial statements.

(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 company
▪ 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 39.

▪ 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.

NOTE 2: Significant accounting policies (continued)
(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.

(w) Onerous contracts

Funtastic Limited enters into royalty contracts with key suppliers. The terms of the royalty agreements require minimum level of royalty payments to be off set against the minimum guarantees paid at the start of the contract. An onerous contract is deemed to exist for both the consolidated and company entities 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 a provision for onerous contracts is made. 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 income statement.

(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.

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

In the application of the group's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out as appropriate in the Notes to the Financial Statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates and underlying assumptions 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 group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- *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*

The group reviews the recoverability of prepaid royalty and license agreements, as detailed in Note 12, on an annual basis. The group takes into account current and projected market sell through in assessing the recoverability of royalty commitments.

NOTE 4: 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 in Australia.

Notes to the Financial Statements

31 December 2008

NOTE 5: Revenue

	Note	Consolidated		Company	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Revenue from the sale of goods					
Gross revenue		394,396	411,749	340,860	294,353
Less settlement discounts and rebates		(36,738)	(42,993)	(32,817)	(33,152)
		357,658	368,756	308,043	261,201
Interest from bank deposits		416	231	249	195
Commissions received		974	978	305	607
Other		7,428	6,314	1,342	762
Management fee		-	-	292	6,786
Dividends received		-	-	-	8,286
Gain on sale of plant & equipment		25	-	19	-
		8,843	7,523	2,207	16,636
Continuing Operations		366,501	376,279	310,250	277,837
Discontinued Operations	34	1,716	18,051	1,716	18,051
		368,217	394,330	311,966	295,888

Notes to the Financial Statements

31 December 2008

NOTE 6: Impairment and Restructuring Costs

The following impairment and restructuring costs are included within the loss from continuing operations in the Income Statement for the year ended 31 December 2008:

	Consolidated 2008 \$'000	2007 \$'000	Company 2008 \$'000	2007 \$'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	-	13,047	-
Goodwill impairment – Toys New Zealand	1,346	-	-	-
Total Goodwill impairment	14,393	-	13,047	-
Other:				
Impairment of material contracts	13,700	-	13,700	-
Costs associated with proposed takeover	474	-	474	-
Total Other	14,174	-	14,174	-
	83,368	-	27,221	-
Income tax benefit	(19,289)	-	(4,252)	-
Total impairment and restructuring costs items	64,079	-	22,969	-

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 and ABC related receivables was impaired on the basis of not being able to reasonably forecast future cash inflows to support the carrying value and amounts outstanding. 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 New Zealand 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 \$13,700,000.

NOTE 7: Profit for the year

	Continuing		Consolidated Discontinued		Total		Continuing		Company Discontinued		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Profit for the year includes the following expenses												
Finance costs:												
Interest on bank loans	7,598	9,133	-	-	7,598	9,133	6,360	7,833	-	-	6,360	7,833
Interest on deferred purchase consideration	668	682	-	-	668	682	668	682	-	-	668	682
	8,266	9,815	-	-	8,266	9,815	7,028	8,515	-	-	7,028	8,515
Inventory:												
Write-down of inventory to net realisable value	4,090	6,688	-	656	4,090	7,344	4,059	6,475	-	656	4,059	7,131
Depreciation	3,015	3,645	-	-	3,015	3,645	2,774	2,541	-	-	2,774	2,541
(Gain)/loss on disposal of plant and equipment	(25)	20	-	-	(25)	20	(19)	8	-	-	(19)	8
Amortisation of Intangibles	2,457	5,204	-	-	2,457	5,204	129	958	-	-	129	958
Operating lease rental expense:												
Rental expenses relating to operating leases	5,112	5,042	287	292	5,399	5,334	4,030	3,629	287	292	4,317	3,921

Notes to the Financial Statements

31 December 2008

NOTE 7: Profit for the year (continued)

	Consolidated						Company					
	Continuing		Discontinued		Total		Continuing		Discontinued		Total	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Management services provided by controlled entities	-	-	-	-	-	-	1,223	1,306	-	-	1,223	1,306
Employee benefit expense:												
Post employment benefits:												
Defined contribution plans	2,756	2,683	18	99	2,774	2,782	2,427	1,963	18	99	2,445	2,062
Share-based payments – employees												
Equity settled share-based payments	(598)	134	(29)	-	(627)	134	(598)	134	(29)	-	(627)	134
Termination benefits	695	-	-	-	695	-	-	-	-	-	-	-
Other employee benefits	39,932	38,003	766	1,792	40,698	39,795	34,458	27,185	765	1,792	35,223	28,977
	42,785	40,820	7855	1,891	43,540	42,711	36,287	29,282	754	1,891	37,041	31,173

Notes to the Financial Statements

31 December 2008

NOTE 8: Income tax

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
(a) Income tax expense				
Current tax	(309)	188	746	(290)
Deferred tax	(12,641)	2,346	(945)	(1,441)
Total tax (benefit)/expense	<u>(12,950)</u>	<u>2,534</u>	<u>(199)</u>	<u>(1,731)</u>
Attributable to:				
Continuing operations	(13,909)	2,789	(1,158)	(1,986)
Discontinued operations	959	(255)	959	255
	<u>(12,950)</u>	<u>2,534</u>	<u>(199)</u>	<u>(1,731)</u>
(b) Income Tax recognised in profit or loss				
Numerical reconciliation of income tax expense to prima facie tax payable				
Operating (loss)/profit before income tax expense – continuing	(66,138)	8,538	(16,308)	2,733
Operating profit/(loss) before income tax expense - discontinued	2,382	(851)	2,382	(851)
	<u>(63,796)</u>	<u>7,687</u>	<u>(13,926)</u>	<u>1,882</u>
Tax (credit)/expense at the Australian tax rate of 30% (2007: 30%)	(19,138)	2,306	(4,178)	565
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:				
Difference in overseas tax rates	-	8	-	-
Dividends received from Subsidiaries	-	-	-	(2,486)
Effect of revenue that is exempt from taxation	(188)	-	(188)	-
Expenses that are not deductible in determining taxable profit	4,346	220	4,033	190
Foreign Loss where deferred tax asset not recognised	1,067	-	-	-
Other	963	-	134	-
Income tax (benefit)/expense	<u>(12,950)</u>	<u>2,534</u>	<u>(199)</u>	<u>(1,731)</u>

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, Hong Kong and U.S.A. where the corporate tax rates are 30%, 17.5% and 30% respectively.

Notes to the Financial Statements

31 December 2008

NOTE 8: Income tax (continued)

	Consolidated		Company	
	2008	2007	2008	2007
	\$,000	\$,000	\$,000	\$,000
(c) Amounts recognised directly in equity				
Deferred Tax Asset / (Liability):				
Financial instruments treated as cash flow hedges	<u>1,230</u>	<u>(505)</u>	<u>1,300</u>	<u>(461)</u>
(d) Current tax balances				
Current tax assets and liabilities				
Income tax receivable from tax office	2,109	6,231	1,097	5,397
Income tax payable to tax office				
Parent entity	-	-	-	-
Entities in the tax-consolidated group	-	-	-	-
Other	-	-	-	-
(e) Deferred tax balances				
Deferred tax assets comprises:				
Tax loss	848	899	848	899
Temporary differences	4,548	3,898	3,002	2,238
	<u>5,396</u>	<u>4,797</u>	<u>3,850</u>	<u>3,137</u>
Deferred tax liability comprises:				
Temporary differences	9,083	22,517	4,899	7,332
	<u>9,083</u>	<u>22,517</u>	<u>4,899</u>	<u>7,332</u>
Deferred Tax Assets / (Liabilities) arise from the following:				
<i>Amounts charged to income</i>				
Provisions – receivables	120	288	102	(639)
Provisions – employee benefits	932	1,036	847	732
Intangibles – Licenses, distribution agreements and supplier relationships	(15)	(11,539)	-	(26)
Property, plant and equipment	(52)	854	(37)	834
Accruals	136	132	128	103
Prepaid royalties	(7,674)	(10,289)	(3,315)	(6,656)
Inventory	593	1,213	593	903
Tax Loss(i)	848	899	848	899
Other	(21)	223	95	221
Other provisions	1,451	-	-	-
Foreign Exchange	(798)	-	(1,044)	-
	<u>(4,480)</u>	<u>(17,183)</u>	<u>(1,783)</u>	<u>(3,629)</u>
(i) The Deferred Tax Asset on the Tax Loss is expected to be absorbed through future taxable income, on the basis of the group's forecasts for the 2009 financial year.				
<i>Amounts recognised directly in equity</i>				
Cash flow hedges	793	(537)	734	(566)
	<u>(3,687)</u>	<u>(17,720)</u>	<u>(1,049)</u>	<u>(4,195)</u>

Notes to the Financial Statements

31 December 2008

NOTE 8: Income tax (continued)

	Consolidated		Company	
	2008	2007	2008	2007
	\$,000	\$,000	\$,000	\$,000
Movements:				
Opening balance as at 1 January	(17,720)	(3,537)	(4,195)	(1,476)
Charged / (credited) to the income statement	12,641	(2,344)	945	1,441
Charged / (credited) to equity	1,230	(505)	1,300	(462)
Acquisition of business	-	-	592	(218)
Acquisition of subsidiary	-	(11,334)	-	-
Tax Group Loss recognised in head entity	-	-	309	(3,480)
Other	162	-	-	-
Closing balance as at 31 December	(3,687)	(17,720)	(1,049)	(4,195)

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 35.

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

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NOTE 9: Finance costs

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Interest on bank overdrafts and loans	7,598	9,133	6,360	7,833
Interest on hire purchase agreements	-	-	-	-
Other interest expense	668	682	668	682
Total Interest expense	8,266	9,815	7,028	8,515
Fair value losses/(gains) on interest rate swaps designated as cash flow hedges transferred from equity	98	(635)	98	(635)
	8,364	9,180	7,126	7,880
Attributable to:				
Continuing operations	8,364	9,180	7,126	7,880
Discontinued operations	-	-	-	-
	8,364	9,180	7,126	7,880

Notes to the Financial Statements

31 December 2008

NOTE 10: Current assets – Trade and other receivables

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Trade receivables ⁽¹⁾	66,092	80,093	59,486	51,812
Amount owing from director related entities	-	877	-	879
Allowance for doubtful debts	(372)	(299)	(345)	(128)
Allowance for credit notes, rebates and settlement discounts	(9,919)	(14,785)	(9,538)	(9,788)
	55,801	65,886	49,603	42,775
Other receivables	424	887	340	821
	56,225	66,773	49,943	43,596

(1) The average credit period on sales of goods is 53 days. No interest is charged on the trade receivables.

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 \$7,090,000 (2007:\$7,683,000) 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. The average age of these receivables is 78 days (2007: 90 days).

Included in the company's trade receivable balance are debtors with a carrying amount of \$4,311,000 (2007:\$5,041,000) which are past due at the reporting date for which the company has not impaired as there has not been a significant change in credit quality and the company believes the amounts are recoverable. The company does not hold any collateral over these balances. The average age of these receivables is 30 days (2007: 90 days).

The group and company review 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 and company review the provision for credit notes, rebates and settlement discounts on an ongoing basis and make provision 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 \$536,000 (2007: Nil) 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.

Notes to the Financial Statements

31 December 2008

NOTE 10: Current assets – Trade and other receivables (continued)

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

	Consolidated			Company		
	Doubtful debts	Rebates, credit notes & settlement discount	Total	Doubtful debts	Rebates, credit notes & settlement discount	Total
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2008						
Balance at beginning of year	(299)	(14,785)	(15,084)	(128)	(9,788)	(9,916)
Utilised	452	32,255	32,707	449	20,907	21,356
Provisions raised	(525)	(27,389)	(27,914)	(536)	(16,112)	(16,648)
Transfers Group	-	-	-	(130)	(4,545)	(4,675)
Balance at end of the year	(372)	(9,919)	(10,291)	(345)	(9,538)	(9,883)
2007						
Balance at beginning of year	(269)	(11,928)	(12,197)	(60)	(6,656)	(6,716)
Utilised	35	24,090	24,125	35	21,577	21,612
Provisions raised	(25)	(26,627)	(26,652)	(103)	(24,709)	(24,812)
Acquisition of subsidiary & business combination	(40)	(320)	(360)	-	-	-
Balance at end of the year	(299)	(14,785)	(15,084)	(128)	(9,788)	(9,916)

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.

NOTE 11: Current assets – Inventories

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Finished goods – at cost	44,395	44,045	36,207	26,077
Finished goods – at net realisable value	11,587	9,424	7,294	9,297
	55,982	53,469	43,501	35,374

NOTE 12: Current assets – Other

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Prepaid royalties and other prepayments	28,714	31,153	13,739	18,395

Notes to the Financial Statements

31 December 2008

NOTE 13: Current assets – Tax assets

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Tax receivable	<u>2,109</u>	<u>6,231</u>	<u>1,097</u>	<u>5,397</u>

NOTE 14: Other financial assets

		Consolidated		Company	
		2008	2007	2008	2007
	Note	\$'000	\$'000	\$'000	\$'000
Current					
Non Interest bearing loans – controlled entities		-	-	588	2,399
Interest bearing loans – controlled entities		-	-	1,778	3,020
Current Other financial assets		<u>-</u>	<u>-</u>	<u>2,366</u>	<u>5,419</u>

Non-Current

Derivatives designated and effective as hedging instruments carried at fair value:

Interest rate swaps	38	-	2,049	-	2,049
Non-Current Other financial assets		<u>-</u>	<u>2,049</u>	<u>-</u>	<u>2,049</u>

Loans to controlled entities are unsecured and interest of the ruling standard variable rate is charged on the outstanding balance.

Receivables from entities within the wholly-owned group include amounts arising under the Group's tax funding arrangement.

NOTE 15: Non-current assets – Property, plant and equipment

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Plant and equipment – at cost	17,322	16,656	14,829	14,020
Less: accumulated depreciation	(12,165)	(10,283)	(10,062)	(8,763)
	<u>5,157</u>	<u>6,373</u>	<u>4,767</u>	<u>5,257</u>
Leasehold improvements	1,514	1,196	1,264	946
Less: accumulated amortisation	(652)	(402)	(552)	(323)
	<u>862</u>	<u>794</u>	<u>712</u>	<u>623</u>
	<u>6,019</u>	<u>7,167</u>	<u>5,479</u>	<u>5,880</u>

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in Note 7 to the financial statements.

Notes to the Financial Statements

31 December 2008

NOTE 15: 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:

Consolidated	Plant and Equipment \$'000	Leasehold Improvements \$'000	Total \$'000
2008			
Cost			
Opening Balance	16,656	1,196	17,852
Additions	1,654	318	1,972
Additions on acquisition	-	-	-
Disposals	(988)	-	(988)
Closing Balance	17,322	1,514	18,836
Accumulated Deprecation			
Opening Balance	(10,283)	(402)	(10,685)
Disposals	883	-	883
Depreciation / amortisation	(2,765)	(250)	(3,015)
Closing Balance	(12,165)	(652)	(12,817)
Written Down Value			
Opening Balance	6,373	794	7,167
Closing Balance	5,157	862	6,019
2007			
Cost			
Opening Balance	14,594	920	15,514
Additions	2,054	272	2,326
Additions on acquisition	321	4	325
Disposals	(313)	-	(313)
Closing Balance	16,656	1,196	17,852
Accumulated Deprecation			
Opening Balance	(7,067)	(154)	(7,221)
Disposals	181	-	181
Depreciation / amortisation	(3,397)	(248)	(3,645)
Closing Balance	(10,283)	(402)	(10,685)
Written Down Value			
Opening Balance	7,527	766	8,293
Closing Balance	6,373	794	7,167

Notes to the Financial Statements

31 December 2008

NOTE 15 Non-current assets – Property, plant and equipment (continued):

Company	Plant and Equipment \$'000	Leasehold Improvements \$'000	Total \$'000
2008			
Cost			
Opening Balance	14,020	946	14,966
Additions	1,575	318	1,893
Disposals	(766)	-	(766)
Closing Balance	14,829	1,264	16,093
Accumulated Depreciation			
Opening Balance	(8,763)	(323)	(9,086)
Disposals	682	-	682
Transfers Group	564	-	564
Depreciation / amortisation	(2,545)	(229)	(2,774)
Closing Balance	(10,062)	(552)	(10,614)
Written Down Value			
Opening Balance	5,257	623	5,880
Closing Balance	4,767	712	5,479
2007			
Cost			
Opening Balance	12,864	851	13,715
Additions	1,420	95	1,515
Disposals	(264)	-	(264)
Closing Balance	14,020	946	14,966
Accumulated Depreciation			
Opening Balance	(6,487)	(154)	(6,641)
Disposals	96	-	96
Depreciation / amortisation	(2,372)	(169)	(2,541)
Closing Balance	(8,763)	(323)	(9,086)
Written Down Value			
Opening Balance	6,377	697	7,074
Closing Balance	5,257	623	5,880

Notes to the Financial Statements

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NOTE 16: Non-current assets – Investments

	Note	Consolidated		Company	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Investment in controlled entities	35	-	-	58,396	99,951

NOTE 17: Non-current assets – Goodwill

	Note	Consolidated		Company	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Gross carrying amount					
Balance at the beginning of financial year		112,481	95,219	56,273	44,686
Additional amounts recognised from business combinations occurring during the year	36	-	14,279	-	-
Effects of foreign currency exchange differences		(865)	(166)	-	-
Deferred payment		-	3,051	-	-
Purchase of business on restructure		-	-	26,344	11,562
Impairment losses for the year		(14,393)	-	(13,047)	-
Other		411	98	-	25
Balance at the end of financial year		97,634	112,481	69,570	56,273
Net book value					
Balance at the beginning of financial year		112,481	95,219	56,273	44,686
Balance at the end of financial year		97,634	112,481	69,570	56,273

Impairment tests for goodwill

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

Cash-generating-unit	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Hardgoods – Australia	34,383	34,383	34,383	34,383
DVD and Theatrical distribution	26,345	26,345	26,345	-
Softgoods	8,842	21,890	8,842	21,890
Educational toys and furniture	14,690	14,279	-	-
Toys – New Zealand	13,374	15,584	-	-
Total	97,634	112,481	69,570	56,273

As part of management's restructure during the year, the Nursery and Apparel CGU's are now part of the Softgoods CGU. Toys - Australia and Confectionery CGU's from 2007 have formed the Hardgoods Australia CGU.

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

During the financial year the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the Group's Softgoods and Toys New Zealand activities was impaired by \$14,393,000 (2007:Nil). The recoverable amount of the Softgoods activities was assessed by reference to the cash-generating unit's value in use. A discount factor of 16.7% per annum (2007:11% per annum) was applied to the value in use model for Toys – New Zealand and 17.4% (2007: 12.5% per annum) for Softgoods.

Of the charge for the year \$14,933,000 (2007: Nil) has been included in impairment and restructuring costs.

Hardgoods

The recoverable amount of the Hardgoods CGU as determined is based on a value in use calculation which uses cash flow projections based on financial budgets approved by management, covering a five year period and using a discount rate of 16.5% (2007: 11.50%) which represents the weighted average cost of capital ("WACC") for the 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 0.3% (2007: 1.7%). Cash flows beyond the five year period have been extrapolated using a growth rate of 1.8%, 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 Hardgoods CGU includes other intangibles of \$552,000. These are brand names.

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.

DVD and Theatrical distribution

The recoverable amount of the DVD and Theatrical distribution CGU as determined is based on a value in use calculation which uses cash flow projections based on financial budgets approved by management, covering a five year period and using a discount rate of 16.7% (2007: 12.50%) which represents the weighted average cost of capital ("WACC") for the 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 0.6% (2007: 1%). Cash flows beyond the five year period have been extrapolated using a growth rate of 1.8%, 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.

Softgoods

During the year the Footwear, Homewares and Accessories divisions were combined with the Apparel and Nursery CGU's to form the Softgoods CGU. At 31 December 2008, after experiencing softer trading conditions in the Softgoods business, the Group assessed the recoverable amount the Softgoods CGU and determined that associated goodwill was impaired by \$13,047,000 (2007 :Nil). The recoverable amount of the Softgoods CGU is based on a value in use calculation which uses cash flow projections based on financial budgets or forecasts approved by management, covering a five year period and using a discount rate of 16.7% (2007: 12.5%) which represents the weighted average cost of capital ("WACC") for the CGU.

Cash flow projections during the budget period are based on the normalised gross margins of the CGU and an average growth rate in sales of less than 1% (2007: 1.62%). Cash flows beyond the five year period have been extrapolated using a growth rate of 1.8%, 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 Softgoods business operates.

NOTE 17 Non-current assets – Goodwill (continued)

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.

Educational toys and furniture

The recoverable amount of the Educational Toys and Furniture CGU as determined is based on a value in use calculation which uses cash flow projections based on financial budgets approved by management, covering a five year period and using a discount rate of 18.2% (2007:13.5%) which represents the weighted average cost of capital ("WACC") for the 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 9.2% (2007: 15.74%). Cash flows beyond the five year period have been extrapolated using a growth rate of 1.8%, 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 toys 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.

Toys – New Zealand

At 31 December 2008, after experiencing softer trading conditions in the Toys – New Zealand business, the Group assessed the recoverable amount of the Toys – New Zealand CGU and determined that associated goodwill was impaired by \$1,346,000 (2007 :Nil). The recoverable amount of the Toys – New Zealand CGU is based on a value in use calculation which uses cash flow projections based on financial budgets or forecasts approved by management, covering a five year period and using a discount rate of 16.7% (2007: 11.0%) which averages the weighted average cost of capital ("WACC") for the CGU.

Cash flow projections during the budget period are based on normalised gross margins of the CGU and an average growth rate in sales of less than 1% (2007: 4.96%). Cash flows beyond the five year period have been extrapolated using a growth rate of 1.8%, 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 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	Externally calculated; 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.

NOTE 18: Non-current assets – Other intangibles

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Brand Names ⁽ⁱ⁾	552	552	552	552
Licenses, distribution agreements & supplier relationships ⁽ⁱⁱ⁾	48,500	48,500	258	258
Less: Accumulated amortisation and impairment ^{(iii) (iv)}	(48,376)	(9,919)	(184)	(55)
	676	39,133	626	755

Notes to the Financial Statements

31 December 2008

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

	Brand Names	Consolidated Licenses, distribution agreements and supplier relationships	Total \$000	Brand Names	Company Licenses, distribution agreements and supplier relationships	Total \$000
Gross Carrying Amount						
Balance at 1 January 2007	552	8,500	9,052	552	258	810
Additions ^(iv)	-	40,000	40,000	-	-	-
Acquisition of license agreements upon restructure ^(v)	-	-	-	-	958	958
Balance as at 31 December 2007	552	48,500	49,052	552	1,216	1,768
Balance at 1 January 2008	552	48,500	49,052	552	1,216	1,768
Additions ^(iv)	-	-	-	-	-	-
Balance at 31 December 2008	552	48,500	49,052	552	1,216	1,768
Accumulated amortisation and impairment						
Balance at 1 January 2007	-	(4,715)	(4,715)	-	(55)	(55)
Amortisation expense ⁽ⁱⁱⁱ⁾	-	(5,204)	(5,204)	-	(958)	(958)
Balance at 31 December 2007	-	(9,919)	(9,919)	-	(1,013)	(1,013)
Balance at 1 January 2008	-	(9,919)	(9,919)	-	(1,013)	(1,013)
Amortisation expense ⁽ⁱⁱⁱ⁾	-	(2,457)	(2,457)	-	(129)	(129)
Impairment Losses charged to profit or loss ^(iv)	-	(36,000)	(36,000)	-	-	-
Balance at 31 December 2008	-	(48,376)	(48,376)	-	(1,142)	(1,142)
Net book value						
As at 31 December 2007	552	38,581	39,133	552	203	755
As at 31 December 2008	552	124	676	552	74	626

Notes to the Financial Statements

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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 0.3% (2007: 1.7%) and the Discount Rate 16.5% (2007: 12.5%).
- (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) Amortisation of \$2,457,000 (2007: \$5,204,000), with respect to the licenses, distribution agreements and supplier relationships is included in amortisation expense in the income statement.
- (iv) The EJA agreement is a long term customer agreement with ABC Learning Centres Limited. Following the administration & receivership of ABC Learning Centres, an Impairment loss of \$36,000,000 was recognized (Note 6).
- (v) Acquisition of Dorcy Irwin license agreements upon restructure as at 1 July 2007.

NOTE 19: Non-current assets – Other

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Prepaid royalties and other prepayments	-	6,100	-	6,100

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

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Trade payables ⁽¹⁾	22,571	18,203	20,770	11,561
	22,571	18,203	20,770	11,561

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

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NOTE 22: Borrowings

		Consolidated		Company	
		2008	2007	2008	2007
	Note	\$'000	\$'000	\$'000	\$'000
Secured – at amortised cost					
Current					
Trade finance		13,000	4,995	13,000	5,000
Bill finance		10,021	16,496	-	5,000
Debtors finance		442	16,288	442	16,288
		<u>23,463</u>	<u>37,779</u>	<u>13,442</u>	<u>26,288</u>
Total Current		<u>23,463</u>	<u>37,779</u>	<u>13,442</u>	<u>26,288</u>
Non-current					
Bill finance		49,370	50,000	49,370	50,000
Total Non-current		<u>49,370</u>	<u>50,000</u>	<u>49,370</u>	<u>50,000</u>
		<u>72,833</u>	<u>87,779</u>	<u>62,812</u>	<u>76,288</u>
Current borrowings					
		23,463	37,779	13,442	26,288
Non-current borrowings					
		49,370	50,000	49,370	50,000
		<u>72,833</u>	<u>87,779</u>	<u>62,812</u>	<u>76,288</u>

The Trade finance, Bill finance and Debtors finance facilities are secured by a first ranking registered mortgage debenture over all assets and undertakings of the group.

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

Financing Arrangements

\$50,000,000 of the Commercial Bill facilities expires 31 December 2010.

The trade finance and debtors finance facilities expire on 31 May 2009 at which stage the company anticipates they will be renegotiated.

The current interest rates are 6.22% on the National Debtors Finance Facility, 7.18% on the trade finance facility and 5.00% on the Commercial Bill Facility (2007: 7.69%, 7.85% and 6.74% respectively).

Financing Arrangements – Controlled Entities

Planet Fun Pty Limited.

The Commercial Bill Facility of 10,021,388 (NZ\$12,000,000) is on a monthly rolling basis and the current interest rate is 8.26% (2007: 9.86%).

All facilities are secured by a first ranking mortgage debenture of the group. Refer to Note 38 Financial Instruments for further details regarding the lending covenants associated with the borrowings.

Notes to the Financial Statements

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NOTE 23: Provisions

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Current				
Employee benefits	2,060	2,169	1,748	1,465
Restructuring provisions	7,191	-	-	-
Total Current	9,251	2,169	1,748	1,465
Non-current				
Employee benefits	903	950	802	769
Total Non-current	903	950	802	769
	10,154	3,119	2,550	2,234

NOTE 24: Interest bearing deferred purchase consideration

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Current				
Deferred purchase acquisition costs	2,261	2,400	2,261	2,400
Total Current	2,261	2,400	2,261	2,400
Non-current				
Deferred purchase acquisition costs	4,469	6,705	4,469	6,705
	4,469	6,705	4,469	6,705
Total Non-current	6,730	9,105	6,730	9,105

On 10 May 2006 the company 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 is payable to the vendors, based on a multiple of future EBIT for the each of the years ending 31 December 2007 to 31 December 2009, not due and payable until the 11th of May in year following each respective period. The amount payable, based on profit for the year ended 31 December 2006, has been included in the determination of the value of goodwill. Interest on the earn-out consideration is payable to the Vendors at 6.5% per annum.

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NOTE 25: Other liabilities

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Other Liabilities				
Accrued royalties	13,620	13,992	8,428	10,508
GST	1,025	2,201	492	(54)
Accrued interest deferred purchase consideration	1,100	859	1,100	859
Accrued rebates	-	182	-	182
Payroll accruals	707	317	703	226
Other accrued expenses	6,615	6,872	6,212	3,166
	<u>23,067</u>	<u>24,423</u>	<u>16,935</u>	<u>14,887</u>

NOTE 26: Other financial liabilities

	Note	Consolidated		Company	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Current					
Derivatives					
Derivatives that are designated and effective as hedging instruments carried at fair value:					
Foreign currency forward contract	38	11	260	155	162
Interest Rate Swaps		-	-	-	-
		<u>11</u>	<u>260</u>	<u>155</u>	<u>162</u>
Loans-controlled entities		-	-	1,247	9,732
Disclosed in the financial statements as:					
Current Other financial liabilities		<u>11</u>	<u>260</u>	<u>1,402</u>	<u>9,894</u>

Loans from controlled entities are at call, unsecured and interest free.

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NOTE 26: Other financial liabilities (continued)

Non-Current	Note	Consolidated		Company	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Derivatives					
Derivatives that are designated and effective as hedging instruments carried at fair value:					
Interest Rate Swaps	38	2,294	-	2,294	-
Non - Current Other financial liabilities		2,294	-	2,294	-

NOTE 27: Issued capital

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Share Capital				
165,498,841 fully paid ordinary shares (2007:165,498,841)	137,201	137,201	137,201	137,201

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	Note	2008		2007	
		Number of Shares '000	\$'000	Number of Shares '000	\$'000
Movements in Ordinary Share Capital					
Opening balance		165,499	137,201	132,761	85,265
Judius issue ex-sale agreement	36	-	-	29,118	46,880
Dividend reinvestment plan	31	-	-	2,933	4,314
Issue of shares under employee share option plan	39	-	-	687	614
Transfer from equity-settled reserve	29	-	-	-	128
Closing balance		165,499	137,201	165,499	137,201

Notes to the Financial Statements

31 December 2008

NOTE 27: Issued capital (continued)

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

There were no Share Purchase Plans offered to shareholders during the financial year (2007:Nil).

Share Issue on Acquisition of Business Assets

On 2 January 2007, 29,117,647 ordinary shares were issued at a price of \$1.85 as part payment for the Judius Group of Companies.

Options

Employee Share Options

In accordance with the provisions of the employee share option plan as at 31 December 2008, employees and directors have options over 862,143 ordinary shares (of which 862,143 are unvested). As at 31 December 2007 employees and directors had options over 1,902,593 ordinary shares (of which 1,652,143 were unvested).

Information relating to the Funtastic Limited Executive Share Option Plan, including details of shares issued under the scheme, are set out in note 39.

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.

NOTE 28: (Accumulated losses)/retained profits

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Opening balance	26,535	34,405	11,170	20,580
Net (loss)/profit after tax for the year	(50,847)	5,153	(13,730)	3,613
Dividends paid	-	(13,023)	-	(13,023)
Balance at the end of financial year	<u>(24,312)</u>	<u>26,535</u>	<u>(2,560)</u>	<u>11,170</u>

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NOTE 29: Reserves

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Currency translation reserve	(719)	(171)	-	-
Equity-settled benefits	1,224	1,852	1,224	1,852
Cash flow Hedging	(1,613)	1,256	(1,710)	1,321
	<u>(1,108)</u>	<u>2,937</u>	<u>(486)</u>	<u>3,173</u>
Currency translation reserve				
Balance at the beginning of the year	(171)	(159)	-	-
Translation of foreign operations	(548)	(12)	-	-
Balance at the end of the year	<u>(719)</u>	<u>(171)</u>	<u>-</u>	<u>-</u>

Exchange differences relating to the translation from United States Dollars, New Zealand Dollars and Hong Kong Dollars, being the functional currencies of the consolidated entity'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.

Equity settled benefit reserve

Balance at the beginning of the year	1,852	1,847	1,852	1,847
Share based payment	(628)	133	(628)	133
Transfer to share capital	-	(128)	-	(128)
Balance at the end of the year	<u>1,224</u>	<u>1,852</u>	<u>1,224</u>	<u>1,852</u>

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 39 to the financial statements.

Cash Flow Hedging reserve

Balance at the beginning of the year	1,256	97	1,321	245
Gain / (Loss) recognised:				
Forward exchange contracts	243	497	8	381
Interest rate swaps	(4,342)	1,156	(4,342)	1,156
Transferred to profit or loss ⁽¹⁾				
Interest rate swaps	98	635	98	635
Transferred to initial carrying amount of hedged item:				
Interest rate swaps	(98)	(635)	(98)	(635)
Deferred tax asset / (liability) arising on hedges	1,230	(494)	1,303	(461)
Balance at the end of the year	<u>(1,613)</u>	<u>1,256</u>	<u>(1,710)</u>	<u>1,321</u>

(1) 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:

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NOTE 29: Reserves (continued)

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.

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Revenue	-	-	-	-
Finance costs	(98)	635	(98)	635
	<u>(98)</u>	<u>635</u>	<u>(98)</u>	<u>635</u>

NOTE 30: 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 (loss)/earnings per share	<u>(30.7)</u>	<u>3.2</u>
Diluted earnings per share		
From continued operations	(31.5)	3.5
From discontinued operations	0.8	(0.3)
Total diluted (loss)/earnings per share	<u>(30.7)</u>	<u>3.2</u>

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 (loss)/profit	<u>(50,847)</u>	<u>5,153</u>
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)
(Loss)/earnings used in the calculation of basic EPS from continuing operations	<u>(52,229)</u>	<u>5,749</u>

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NOTE 30: Earnings per share (continued)

	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 (loss)/profit	(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)
(Loss)/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
---------	---------

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	1,615	952
	1,615	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	-	-
	-	-

Notes to the Financial Statements

31 December 2008

NOTE 31 Dividends

	2008		2007	
	Cents per share	\$'000	Cents per share	\$'000
Recognised amounts				
Ordinarily fully franked dividend paid				
Final dividend – prior year				
Fully franked at a 30% tax rate	-	-	4.0	6,479
Interim dividend – current year				
Fully franked at a 30% tax rate	-	-	4.0	6,544
	-	-	8.0	13,023
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the year ended 31 December 2008 and 2007 were as follows:				
Paid in cash	-	-	-	8,709
Satisfied by issue of shares	-	-	-	4,314
	-	-	-	13,023
Unrecognised amounts				
Fully paid ordinary shares	-	-	-	-
Final dividend: Fully franked at a 30% tax rate	-	-	-	-
	-	-	-	-
	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Adjusted franking account balance	18,826	22,698	6,354	10,226
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 December 2008

NOTE 32: Commitments for expenditure

Consolidated		Company	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000

Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 33 to the financial statements.

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:

Not later than one year	7,357	13,489	7,191	13,068
Later than one year but not later than two years	2,992	5,021	2,992	2,677
Later than two years but not later than five years	620	-	620	-
	<u>10,969</u>	<u>18,510</u>	<u>10,803</u>	<u>15,745</u>

NOTE 33: Leases

Consolidated		Company	
2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'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:

Not later than one year	4,818	4,275	4,254	3,294
Later than one year but not later than five years	4,188	5,903	4,148	5,462
Later than five years	2,993	241	2,993	241
	<u>11,999</u>	<u>10,419</u>	<u>11,395</u>	<u>8,997</u>

The operating leases are non-cancellable leases with respect to office and warehouse premises with lease terms of between six months and six 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 December 2008

NOTE 34: Discontinued Operations

On the 20 February 2008 Funtastic Limited announced the sale of its Publishing business unit to Parragon Publishing Limited. The disposal of the publishing business is consistent with the group's long term policy to focus its activities on core business.

The sale price has been struck at a premium to net assets. The sale realised \$10,178,000 in gross cash proceeds excluding debtors collections during the period.

The disposal was completed on the 20 February 2008, on which date control of the publishing business passed to the buyer.

The results of the discontinued operation which have been included in the income statement are as follows. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period:

	Consolidated and Company	
	2008	2007
	\$'000	\$'000
Profit for the year from discontinued operations:	1,382	(596)
Revenue	1,716	18,051
Expenses		
Cost of sales	2,288	13,207
Warehouse and distribution	530	1,572
Marketing & Selling	246	2,851
Administration	482	1,272
Amortisation	-	-
Finance Costs	-	-
	(3,546)	(18,902)
(Loss)/Profit before income tax	(1,830)	(851)
Attributable Income tax (expense)/benefit	751	255
(Loss)/Profit after income tax	(1,079)	(596)
Net gain on disposal of the operation	4,212	-
Attributable Income tax expense/(benefit)	(1,751)	-
Profit/(loss) for the year from discontinued operations	1,382	(596)
Cash flows from discontinued operations:		
Net cash flows from operating activities	(1,079)	(596)
Net cash flows from investing activities	-	-
Net cash flows from financing activities	-	-
Net Cash flows from discontinued operations	(1,079)	(596)

Notes to the Financial Statements

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NOTE 35: Subsidiaries

Name of Entity	Country of Incorporation	Equity Holding	
		2008 %	2007 %
Company			
Funtastic Limited ⁽ⁱ⁾	Australia	100	100
Subsidiaries			
JNH Australia Pty Ltd ^{(ii) (iv)}	Australia	100	100
Fun International Ltd	Hong Kong	100	100
Funtastic International Limited	Hong Kong	100	100
Planet Fun Pty Limited ^{(ii) (iv)}	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) (iv)}	Australia	100	100
Judius NZ Pty Limited	New Zealand	100	100
My Paint Box Inc (formerly Global Funtastic Inc.) ⁽ⁱⁱⁱ⁾	USA	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) Incorporated 30 May 2007.

(iv) 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 December 2008

NOTE 35: Subsidiaries (continued)

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

	Consolidated
	2008
	\$'000
Revenue from continuing operations	354,850
Cost of sale of goods	(235,930)
Other expenses	
Warehouse and distribution	(26,070)
Marketing and selling	(56,452)
Administration	(11,296)
Amortisation	(2,457)
Finance costs	(8,364)
Impairment and restructuring costs	(77,263)
(Loss)/profit before income tax	(62,982)
Income tax (expense)/benefit	14,022
(Loss)/profit for the period from continuing operations	(48,960)
Discontinued operations	
Profit/(loss) for the period from discontinued operations	1,382
(Loss)/Profit for the year	(47,578)

No comparatives are provided as the deed was entered into in the 2008 financial year.

Notes to the Financial Statements

31 December 2008

NOTE 35: Subsidiaries (continued)

	Consolidated 2008 \$'000
Current Assets	
Cash	5,212
Trade and other receivables	55,643
Inventories	53,527
Other	14,139
Current tax assets	2,153
Other financial assets	5,219
Total Current Assets	135,893
Non-Current Assets	
Property, plant and equipment	5,837
Goodwill	97,634
Other intangibles	676
Investments	2
Deferred tax assets	5,396
Total Non-Current Assets	109,545
Total Assets	245,438
Current Liabilities	
Trade and other payables	22,502
Borrowings	23,463
Provisions	9,251
Deferred purchase consideration	2,261
Other	11,276
Other Financial Liabilities	11
Total Current Liabilities	68,764
Non-Current Liabilities	
Borrowings	49,370
Provisions	903
Deferred tax liabilities	4,724
Deferred purchase consideration	4,469
Other Financial Liabilities	2,294
Total Non-Current Liabilities	61,760
Total Liabilities	130,524
Net Assets	114,914
Equity	
Issued capital	137,199
Accumulated losses	(21,220)
Reserves	(1,065)
Total Equity	114,914

No comparatives are provided as the deed was entered into in the 2008 financial year.

Notes to the Financial Statements

31 December 2008

NOTE 35: Subsidiaries (continued)

Accumulated losses reconciliation

	Consolidated 2008 \$'000
Opening balance	26,358
Net (loss)/profit after tax for the year	(47,578)
Balance at the end of financial year	<u>(21,220)</u>

NOTE 36: Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Cost of acquisition \$'000
2008				
Nil				
2007				
Judius Group of Companies ⁽¹⁾	Educational toys & furniture	2 January 2007	100	<u>53,217</u>
				<u>53,217</u>

1. The acquired business contributed revenue of \$34,313,000 (2007: \$37,358,000) and net loss after impairment and tax of \$(7,828,000) (2007: \$4,200,000 NPAT) to the group for the period 1 January 2008 to 31 December 2008.

Notes to the Financial Statements

31 December 2008

NOTE 36: Acquisition of businesses (continued)

	Judius Group of Companies		
	Book value	Fair value	Fair value
	\$'000	adjustment	on
Net assets acquired		\$'000	acquisition
			\$'000
Current assets			
Cash	798	-	798
Debtors	4,108	(86)	4,022
Inventories	7,549	(1,147)	6,402
Other current assets	189	-	189
Current tax assets	41	-	41
Non-current assets			
Plant and equipment	332	(7)	325
Customer agreement	-	40,000	40,000
Deferred tax asset	133	533	666
Current liabilities			
Trade creditors	(840)	-	(840)
Provisions	-	(105)	(105)
Interest bearing liabilities	(65)	-	(65)
Employee benefits	(299)	(153)	(452)
Other current liabilities	(43)	-	(43)
Non-current liabilities			
Deferred tax liability	-	(12,000)	(12,000)
	11,903	27,035	38,938
Goodwill on acquisition			14,279
			53,217

Notes to the Financial Statements

31 December 2008

NOTE 36: Acquisition of businesses (continued)

The cost of the acquisition comprises directly attributable costs related to the acquisition of \$1,379,000, cash to the vendor of \$5,000,000 and the issue of 29,117,647 ordinary shares (\$46,880,000).

The key commercial terms of the customer agreement are:

- Ongoing supply arrangement, with Judius supplying toys, furniture and learning and development products on an exclusive basis to all of A.B.C Learning Centres Limited's (ABC) childcare centres;
- Judius' right to supply ABC is global, and has an initial term of 20 years; and
- ABC will be entitled to a percentage of revenue on sales made to and through ABC centres.

The goodwill is attributable to the buyer specific synergies that arise on acquisition and the additional revenue expected from sales to ABC which are not part of the EJA agreement; and an increase in sales of Judius product to the traditional Funtastic customer base.

Following the collapse of ABC Learning Centres Ltd an impairment loss was recognized for the full value of the remaining unamortised portion of the EJA Agreement with ABC (refer note 6).

NOTE 37: Notes to the cash flow statement

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Reconciliation of cash and cash equivalents				
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	5,769	2,726	3,440	519
	<u>5,769</u>	<u>2,726</u>	<u>3,440</u>	<u>519</u>

Businesses acquired

On 1 January 2008, Funtastic Limited acquired the business of its wholly owned subsidiary Madman Entertainment Pty Limited and all assets and liabilities, except for assets and liabilities relating to certain licence arrangements, were transferred into Funtastic at consolidated book values. No gain or loss on the transfer of the business was recognised as a result.

During the year, a deferred payment of \$2,751,000 was made to the previous owners of the Madman Group in accordance with the original purchase and sale agreement .

Notes to the Financial Statements

31 December 2008

NOTE 37: Notes to the cash flow statement (continued)

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Financing facilities				
Total Facilities				
National Debtor Finance Facility	25,000	25,000	25,000	25,000
Trade Refinance Facility	19,900	25,000	19,900	25,000
	<u>44,900</u>	<u>50,000</u>	<u>44,900</u>	<u>50,000</u>
Used at Balance Date				
National Debtor Finance Facility	442	16,288	442	16,288
Trade Refinance Facility	13,000	4,995	13,000	4,995
	<u>13,442</u>	<u>21,283</u>	<u>13,442</u>	<u>21,281</u>
Unused at Balance Date				
National Debtor Finance Facility	24,558	8,712	24,558	8,712
Trade Refinance Facility	6,900	20,005	6,900	20,005
	<u>31,458</u>	<u>28,717</u>	<u>31,458</u>	<u>28,717</u>
Commercial Bill Facilities				
Total facilities	60,021	67,389	50,000	55,000
Used at balance date	60,021	66,496	50,000	55,000
Unused at balance date	<u>-</u>	<u>893</u>	<u>-</u>	<u>-</u>
Documentary Letter of Credit Facilities				
Total facilities	20,000	25,280	20,000	25,280
Used at balance date	12,552	9,662	12,552	9,662
Unused at balance date	<u>7,448</u>	<u>15,618</u>	<u>7,448</u>	<u>15,618</u>
Bank Guarantee Facilities				
Total facilities	2,000	2,000	2,000	2,000
Used at balance date	1,892	1,910	1,892	1,910
Unused at balance date	<u>108</u>	<u>90</u>	<u>108</u>	<u>90</u>
Other Facilities				
Total facilities	500	-	500	-
Used at balance date	1	-	1	-
Unused at balance date	<u>499</u>	<u>-</u>	<u>499</u>	<u>-</u>

Notes to the Financial Statements

31 December 2008

NOTE 37: Notes to the cash flow statement (continued)

The Group has access to financing facilities at reporting date as indicated above. Refer to Note 38 Financial Instruments regarding the lending covenants associated with the borrowings.

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

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
(Loss)/profit after income tax	(50,847)	5,153	(13,730)	3,613
Gain on sale of Publishing	(4,212)	-	(4,212)	-
Amortisation	2,457	5,204	129	958
Impairment	50,400	-	13,047	-
Depreciation	3,015	3,645	2,774	2,541
Interest revenue	(416)	(231)	(408)	(195)
Share options expense	(627)	134	(627)	134
Dividends received/(paid)	-	-	-	(8,286)
Write down of inventory to NRV	-	7,344	-	7,131
(Profit)/loss on sale of non-current assets	(25)	20	(25)	8
Decrease/(increase) in trade and other receivables	10,548	(7,790)	2,694	(2,933)
(Increase)/decrease in inventories	(5,872)	8,842	(5,927)	12,704
(Increase)/decrease in deferred tax asset	(599)	(757)	225	(4,859)
Decrease/(increase) in prepayments	8,205	(15,120)	9,917	(11,476)
Increase/(decrease) in trade creditors and accruals	4,368	10,110	6,828	18,879
Increase/(decrease) in current tax liability	4,122	(3,542)	3,308	(3,103)
(Decrease)/increase in employee provisions	(157)	(45)	1,399	114
(Decrease)/increase in deferred tax liability	(12,206)	2,833	(7,367)	3,418
Increase/(decrease) in other liabilities	4,058	5,083	2,048	5,836
Net cash inflow / (outflow) from operating activities	12,212	20,883	10,073	24,484

Notes to the Financial Statements

31 December 2008

NOTE 37: Notes to the cash flow statement (continued)

Business disposed

During the financial year, the Group disposed of its publishing operations. Details of the disposal are as follows:

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Considerations				
Cash and cash equivalents	10,178	-	10,178	-
Associated costs incurred	(1,788)	-	(1,788)	-
	8,390	-	8,390	-
<u>Book value of net assets sold</u>				
Cash and cash equivalents	-	-	-	-
Trade and other receivables	-	-	-	-
Inventories	3,359	-	3,359	-
Other current assets	1,484	-	1,484	-
<u>Non-current assets</u>				
Property, plant and equipment	96	-	96	-
<u>Current Liabilities</u>				
Trade and other payables	(699)	-	(699)	-
Provisions	(62)	-	(62)	-
<u>Non-current liabilities</u>				
Borrowings	-	-	-	-
Deferred tax liabilities	-	-	-	-
Net assets disposed	4,178	-	4,178	-
Gain on disposal	4,212	-	4,212	-
Net cash inflow on disposal				
Cash and cash equivalent consideration	10,178	-	10,178	-
Less cash and cash equivalent balances disposed of	-	-	-	-
	10,178	-	10,178	-

NOTE 38: Financial instruments

Capital risk management

The group and company 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 consist 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, retained earnings 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 year the group and the company complied with their externally imposed capital requirements. The lending covenants were:

- Liquidity ratio;
- Interest cover ratio;
- Debt/EBITDA;

For the purpose of determining compliance with covenants at 31 December 2008 and 31 March 2009 the bank agreed to exclude the impact of impairments and restructuring costs.

Covenants have not been established beyond March 2009. Covenants will be established as part of the May 2009 review by the group's banker. Based on the improved underlying performance of the group (excluding impairments and restructuring costs) in the 2008 year, the group's prospects for the 2009 and the solid working relationship with the groups bank the Directors are confident that appropriate and commercial covenants will be established for the remainder of the year.

Subsequent to year end the Company announced its intention to complete a \$22 million fully underwritten capital raising by way of an entitlement issue to eligible shareholders and the signing of a non-binding heads of agreement in relation to the potential acquisition of NSR (HK) Limited from interests associated with Nir Pizmony. Proceeds from the Rights Issue will be applied to reduce debt and repair the balance sheet following the write downs recorded in the current year. The acquisition which is subject to due diligence is expected to be funded predominantly via the issue of shares.

The borrowings that are due to be expire in May 2009 will be either renegotiated or paid out via refinancing, applying proceeds from the rights issue or via other capital raising options available to the company.

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 year and the prior year.

Notes to the Financial Statements

31 December 2008

NOTE 38: Financial instruments (continued)

Categories of financial instruments

Financial Instrument	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Derivative instruments in designated hedge accounting relationships	-	2,049	-	2,049
Loans and receivables (including cash and cash equivalents)	64,103	75,141	57,592	49,663
Financial liabilities				
Derivative instruments in designated hedge accounting relationships	2,305	260	2,449	162
Amortised cost	125,201	129,078	56,844	113,603

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 and company'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 and company level, market risk exposures are measured through sensitivity analysis and stress scenario analysis.

In 2008, while there has been a weakening of the Australian dollar against the US dollar and the Euro, and a decline in variable interest rates, there has been no material change to the group's and company's exposure to market risk or the manner in which it manages and measures the risk.

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 and company'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.

Notes to the Financial Statements

31 December 2008

NOTE 38: Financial instruments (continued)

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

	Consolidated				Company			
	Liabilities		Assets		Liabilities		Assets	
	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
US dollars	6,860	3,552	3,853	4,338	3,854	1,667	3,155	4,245
NZ dollars	13,069	19,711	7,970	6,608	168	-	2,230	1,780
Euro	4,735	53	83	5	4,735	1,920	83	5
Other	172	221	615	29	-	-	173	29

Foreign currency sensitivity

The group and company are mainly exposed to the US dollar, Euro and the NZ dollar. The directors have considered that a 15% movement in the rate of exchange between the Australian dollar and the US dollar would not result in a material impact on profit or equity. The directors have considered that a 10% movement in the rate of exchange between the Australian dollar and the Euro would not result in a material impact on profit or equity. The directors have considered that a 10% upward and 5% downward movement in the rate of exchange between the Australian dollar and the NZ dollar would not result in a material impact on profit or equity.

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:

Company	Average Exchange Rate		Foreign currency		Contract value		Fair value	
	2008	2007	2008	2007	2008	2007	2008	2007
Outstanding contracts								
Buy US dollars	AUD/USD		US\$'000	US\$'000	A\$'000	A\$'000	\$'000	\$'000
0-12 months	0.6838	0.8800	14,380	14,448	21,003	16,632	(657)	(162)
Total	0.6838	0.8800	14,380	14,448	21,003	16,632	(657)	(162)

Company	Average Exchange Rate		Foreign currency		Contract value		Fair value	
	2008	2007	2008	2007	2008	2007	2008	2007
Outstanding contracts								
Buy EURO dollars	AUD/EURO		EU\$'000	EU\$'000	A\$'000	A\$'000	\$'000	\$'000
0-12 months	0.4860	-	2,594	-	4,834	-	503	-
Total	0.4860	-	2,594	-	4,834	-	503	-

Planet Fun – New Zealand

Company	Average Exchange Rate		Foreign currency		Contract value		Fair value	
	2008	2007	2008	2007	2008	2007	2008	2007
Outstanding contracts								
Buy US dollars	NZD/USD		US\$'000	US\$'000	NZ\$'000	NZ\$'000	\$'000	\$'000
0-12 months	0.5729	0.7200	1,860	1,253	3,075	1,739	171	(97)
Total	0.5729	0.7200	1,860	1,253	3,075	1,739	171	(97)

NOTE 38: Financial instruments (continued)

The group's forward foreign exchange contracts comprise the company and Planet Fun – New Zealand forward foreign exchange contracts.

The group and the company have 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 \$11,000 (2007: liability \$260,000) and liabilities of the company of \$155,000 (2007: liability \$162,000).

During the year ended 31 December 2007 a gain on hedging instruments for the group of \$243,000 (2007: gain: \$497,000) and for the company \$8,000 (2007: gain: \$381,000) have been brought to account in other current financial assets and liabilities (refer note 26). 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 and the company are 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 and the company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section below.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates to the group and company 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 and the company's:

- Net profit after taxation would increase/decrease by \$316,000 (2007: increase/decrease by \$ 492,000). 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 \$316,000 (2007: increase/decrease by \$492,000). The effect of the interest rate swap would be to limit the impact on equity as the fair value of the swap on the long term facility moves in equal proportion in the opposite direction to the increase/decrease in interest expense on the long term facility.

Interest Rate Swap Contracts

Bank loans of the group currently bear an average variable interest rate of 5.41% (2007: 7.56%). It is policy to protect part of the loans from exposure to increasing interest rates. Bank loans of the company currently bear an average variable interest rate of 5.48% (2007: 7.59%). Accordingly, the company (therefore, consolidated entity) has entered into an interest rate swap contract under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The contract is settled on a net basis and the net amount receivable or payable at the reporting date is included in 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.

NOTE 38: Financial instruments (continued)

The swap currently in place covers 100% (2007: 100%) of the long term loan principal outstanding and is timed to expire as the end of the facility. The fixed interest rate is 6.71% (2007: 6.71%) and the variable rate is the bank bill rate of the term of the underlying bill which at balance date was 5.0% (2007: 7.02%).

As at 31 December 2008, the notional principal amounts and the periods of expiry of the interest rate swap contract for the group and the company was as follows:

Outstanding floating for fixed contracts	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2008	2007	2008	2007	2008	2007
	%	%	\$'000	\$'000	\$'000	\$'000
Less than 2 years	6.71	-	50,000	-	(2,294)	-
2 - 3 years		6.71	-	50,000	-	2,040
			50,000	50,000	(2,294)	2,040

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 and company'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.

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 and company have 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 and company 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 and company's maximum exposure to credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who has 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.

Notes to the Financial Statements

31 December 2008

NOTE 38: Financial instruments (continued)

Liquidity and interest tables - financial liabilities

The following tables detail the group and the company'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.

Consolidated	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
2008							
Non-interest bearing	-	5,222	18,057	14,646	-	-	37,925
Variable interest rate instruments	7.69	21,584	2,023	-	-	-	23,607
Fixed interest rate instruments ⁽¹⁾	6.68	-	-	2,322	61,895	-	64,217
		26,806	20,080	16,968	61,895	-	125,749

2007

Non-interest bearing	-	24,376	7,410	4,684	5,903	241	42,614
Variable interest rate instruments	8.28	21,428	-	17,114	-	-	38,542
Fixed interest rate instruments ⁽¹⁾	6.68	-	-	2,466	67,205	-	69,671
		45,804	7,410	24,264	73,108	241	150,827

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

Company	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
2008							
Non-interest bearing	-	4,858	16,617	13,871	-	-	35,346
Variable interest rate instruments	7.27	11,492	2,023	-	-	-	13,515
Fixed interest rate instruments	6.68	-	-	2,322	61,895	-	64,217
		16,350	18,640	16,193	61,895	-	113,078
2007							
Non-interest bearing	-	17,141	14,559	3,395	5,462	241	40,798
Variable interest rate instruments	7.59	26,454	-	-	-	-	26,454
Fixed interest rate instruments	6.70	-	-	2,466	65,655	-	68,121
		43,595	14,559	5,861	71,117	241	135,373

Notes to the Financial Statements

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NOTE 38: Financial instruments (continued)

Liquidity and interest tables - financial assets

The following table details the group and the company'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 and or the company anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 months to 1 year	1 – 5 years	5+ years	Total
Consolidated	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2008							
Non-interest bearing	-	19,423	38,098	2,110	-	-	59,631
Variable interest rate instruments	0.98	4,473	-	-	-	-	4,473
Fixed interest rate instruments	-	-	-	-	-	-	-
		23,896	38,098	2,110	-	-	64,104
2007							
Non-interest bearing	-	63,083	972	8,936	-	-	72,991
Variable interest rate instruments	4.62	2,158	-	-	-	-	2,158
Fixed interest rate instruments	-	-	-	-	-	-	-
		65,241	972	8,936	-	-	75,149

	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 months to 1 year	1 – 5 years	5+ years	Total
Company	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2008							
Non-interest bearing	-	17,766	32,772	1,844	-	-	52,382
Variable interest rate instruments	2.15	2,846	-	1,808	-	-	4,654
Fixed interest rate instruments	-	-	-	-	-	-	-
		20,612	32,772	3,652	-	-	57,036
2007							
Non-interest bearing	-	40,767	3,686	1,760	-	-	46,213
Variable interest rate instruments	7.79	431	3,083	-	-	-	3,514
Fixed interest rate instruments	-	-	-	-	-	-	-
		41,198	6,769	1,760	-	-	49,727

NOTE 38: Financial instruments (continued)
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.

NOTE 39: Share-based payments
Executive Share Option Plan

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 1

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

Option type 2

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

Option type 3

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;

Notes to the Financial Statements

31 December 2008

NOTE 39: Share-based payments (continued)

- 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.

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						
Option type	Option number	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
2	25	250,000	11/05/2006	31/03/2011	\$1.86	\$0.22
3	30	250,000	17/05/2007	02/09/2011	\$1.64	\$0.30
3	32	340,000	29/06/2007	02/09/2012	\$1.82	\$0.38
3	33	200,000	20/03/2008	02/09/2013	\$0.44	\$0.12
3	34	250,000	23/05/2008	02/09/2012	\$1.82	\$0.11

Balance outstanding at the end of the financial year

Consolidated and Company - 2008

Option type	Option Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Balance at end of Financial year
2	25	11/05/2006	31/03/2011	\$1.86	\$0.22	250,000
2	27	15/08/2006	02/09/2011	\$1.64	\$0.30	157,143
3	30	17/05/2007	02/09/2011	\$1.64	\$0.30	250,000
3	33	20/03/2008	02/09/2013	\$0.44	\$0.12	200,000
3	34	23/05/2008	02/09/2012	\$1.82	\$0.11	250,000
						1,107,143

Notes to the Financial Statements

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NOTE 39: Share-based payments (continued)

Consolidated and Company - 2007

Option type	Option Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Balance at end of Financial year
1	5	23/09/2003	02/04/2008	\$1.10	\$0.75	7,500
1	6	11/11/2003	01/08/2008	\$1.52	\$0.32	105,000
1	7	17/12/2003	17/09/2008	\$1.89	\$0.38	56,250
1	8	29/12/2004	29/12/2008	\$2.18	\$0.46	50,000
1	9	05/01/2004	05/01/2009	\$2.12	\$0.45	50,000
1	11	03/11/2004	09/08/2009	\$2.39	\$0.47	50,000
2	24	27/02/2006	02/04/2011	\$1.88	\$0.33	100,000
2	25	11/05/2006	31/03/2011	\$1.86	\$0.22	250,000
2	27	15/08/2006	02/09/2011	\$1.64	\$0.30	327,143
3	30	17/05/2007	02/09/2011	\$1.64	\$0.30	250,000
3	32	29/06/2007	02/09/2012	\$1.82	\$0.38	170,000
						1,415,893

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.

Notes to the Financial Statements

31 December 2008

NOTE 39: Share-based payments (continued)

The model inputs for options granted include:

Option Number	5	6	7	8	9	11
Grant Date	02/04/03	01/08/03	17/12/03	29/12/03	05/01/04	09/08/04
Vesting Date	30/01/05	11/03/05	03/06/05	30/12/05	01/01/06	14/03/06
Expiry Date	02/04/08	01/08/08	17/09/08	29/12/08	05/01/09	09/08/09
Exercise price	\$1.10	\$1.52	\$1.89	\$2.18	\$2.12	\$2.39
Stock Price at Issue	\$1.89	\$1.55	\$1.89	\$2.18	\$2.12	\$2.39
Expected Life (years)	3.83	3.61	3.46	4.01	3.99	3.60
Volatility	30%	30%	30%	30%	30%	30%
Risk free rate	4.8%	5.0%	5.4%	5.6%	5.6%	5.4%
Dividend yield	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Vesting period (years)	1.8	1.6	1.5	2.0	2.0	1.6
Value	\$0.75	\$0.32	\$0.38	\$0.47	\$0.45	\$0.48
Option Number	24	25	27	30	32	33
Grant Date	27/02/06	11/05/06	15/08/06	17/05/07	29/06/07	20/03/08
Vesting Date	02/04/09	02/04/09	31/03/09 & 31/08/09	31/03/09 & 31/08/09	02/04/10 & 31/08/10	31/03/11 & 31/08/11
Expiry Date	02/04/11	31/03/11	02/09/11	02/09/11	02/09/12	02/09/13
Exercise price	\$1.88	\$1.86	\$1.64	\$1.64	\$1.82	\$0.44
Stock Price at Issue	\$1.88	\$1.61	\$1.64	\$1.64	\$1.82	\$0.37
Expected Life (years)	4.10	3.90	3.84	3.08	3.97	4.3
Volatility	30%	30%	30%	30%	30%	50%
Risk free rate	5.3%	5.5%	5.8%	5.8%	5.8%	6%
Dividend yield	6.0%	6.0%	6.0%	6.0%	6.0%	4.0%
Vesting period (years)	3.1	2.9	2.8	2.08	2.97	N/A
Value	\$0.33	\$0.22	\$0.30	\$0.30	\$0.38	\$0.12
Option Number	34					
Grant Date	23/05/08					
Vesting Date	31/03/10 & 31/08/10					
Expiry Date	02/09/12					
Exercise price	\$1.82					
Stock Price at Issue	\$0.66					
Expected Life (years)	3.4					
Volatility	60%					
Risk free rate	6.60%					
Dividend yield	4.0%					
Vesting period (years)	N/A					
Value	\$0.11					

Notes to the Financial Statements

31 December 2008

NOTE 39: Share-based payments (continued)

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

	2008		2007	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at the beginning of the financial year	1,415,893	1.78	2,758,832	1.62
Granted during the financial year	450,000	1.21	590,000	1.74
Forfeited during the financial year	(540,000)	1.85	(726,748)	1.82
Exercised during the financial year	-	-	(687,500)	0.89
Expired during the financial year	(218,750)	1.75	(518,692)	2.00
Balance at the end of the financial year	1,107,143	1.51	1,415,893	1.78
Exercisable at the end of the financial year	-	-	268,750	1.87

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

2008				2007			
Option No.	Number exercised	Exercise Date	Share price at exercise Date \$	Option No.	Number exercised	Exercise Date	Share price at exercise Date \$
-	-	-	-	5	10,000	09/03/07	\$1.89
				4	5,000	22/03/07	\$1.84
				5	15,000	30/07/07	\$1.71
				5	7,500	31/07/07	\$1.70
				4	650,000	01/10/07	\$1.41
	<u>Nil</u>				<u>687,500</u>		

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

The weighted average remaining contractual life of the share options outstanding as at 31 December 2008 is 3.74 years (2007: 3.02 years)

The weighted average fair value of options granted during the year was \$0.11 (2007: \$0.34)

NOTE 39: Share-based payments (continued)

Executive options vested at the reporting date are as follows:

Option No.	Option Price	2008 Number	2007 Number
5	1.10	-	7,500
6	1.52	-	105,000
7	1.89	-	56,250
8	2.18	-	50,000
11	2.39	-	50,000
		-	268,750

Aggregate proceeds received from executives on the exercise of options and recognised as issued capital in the financial year was \$Nil (2007:\$614,426).

Market value of shares issued to executives on the exercise of options as at their issue date in the financial year was \$Nil (2007:\$983,000).

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 2

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

- for 50% to vest the average diluted earnings per share (EPS) growth rate over three years is required to be 11%p.a;
- for the remaining 50% to vest the average diluted EPS growth rate over three years is required to be 15%p.a;
- 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
- 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:

- 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);
- 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;
- 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
- the employee being in continuous employment with the Company until 31 August in the year following the three years.

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NOTE 39: 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.

Set out below are summaries of rights granted under the plan for the current and preceding year.

EPSR's granted

EPSR type	EPSR Number	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
2	35	292,500	03/07/2008	02/09/2011	Nil	\$0.39
2	31	342,500	29/06/2007	02/09/2010	Nil	\$1.82

EPSR Balance outstanding at the end of the financial year

Consolidated and Company - 2008

EPSR type	EPSR Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Balance at end of Financial year
2	26	15/08/2006	02/09/2009	Nil	\$1.64	90,000
2	31	29/06/2007	02/09/2010	Nil	\$1.82	170,000
2	35	03/07/2008	02/09/2011	Nil	\$0.39	247,500
						507,500

Consolidated and Company - 2007

EPSR type	EPSR Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Balance at end of Financial year
2	26	15/08/2006	02/09/2009	Nil	\$1.64	177,500
2	31	29/06/2007	02/09/2010	Nil	\$1.82	327,500
						505,000

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.

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NOTE 39: Share-based payments (continued)

The model inputs for performance rights granted include:

EPSR Number	26	31	35
Issue Date	15/08/06	29/06/07	03/07/2008
Vesting Date	31/03/09 & 31/08/09	02/04/10 & 31/08/10	31/03/11 & 31/03/11
Expiry Date	02/09/09	02/09/10	02/09/11
Exercise price	\$0.00	\$0.00	\$0.00
Stock Price at Issue	\$1.64	\$1.82	\$0.50
Expected life (year)	3.05	3.18	2.9
Volatility	30%	30%	60%
Risk free rate	5.8%	5.8%	6.65%
Dividend yield	6.0%	6.0%	4.0%
Value	\$1.64	\$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:

	2008		2007	
	Number of EPSRs	Weighted average exercise price \$	Number of EPSRs	Weighted average exercise price \$
Balance at the beginning of the financial year	505,000	-	324,924	-
Granted during the financial year	292,500	-	342,500	-
Forfeited during the financial year	(290,000)	-	(38,200)	-
Exercised during the financial year	-	-	-	-
Expired during the financial year	-	-	(124,224)	-
Balance at the end of the financial year	507,500	-	505,000	-
Exercisable at the end of the financial year	-	-	-	-

No EPSRs were exercised during the current 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 December 2008 is 1.96 years (2007: 2.28 years).

The weighted average fair value of performance share rights granted during the year was \$0.38 (2007: \$1.83).

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NOTE 40: 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:

Graeme Yeomans	Chairman of the Board and Independent Non-executive director.
David Berry	Non-executive director and Company Secretary.
Antony Lynch	Independent Non-executive director.
David Hendy	Chairman and Non-executive director - retired effective 24 September 2008.
Tony Oates	Managing Director – resigned effective 19 February 2009.
Stewart Downs	Chief Executive Officer- appointed GM Toys & Sporting 1 February 2008, appointed CEO effective 19 February 2009.
Ray Dixon	Chief Financial Officer – appointed 28 April 2008. Permanent contract issued 21 December 2008.
Adam Kocks	General Manager Operations.
Tony Oates	Managing Director – resigned effective 19 February 2009.
Paul Cannon	General Manager Softgoods – redundant effective 25 February 2009.
Ed Medica	General Manager General Merchandise – resigned effective 26 December 2008.
Jeff Hunter	President Judius Worldwide – terminated effective 19 February 2009.
Karl Nixon	Chief Financial Officer – redundant 24 April 2008.
Mark Scott	General Manager International & Publishing - transferred on the sale of publishing business effective 19 February 2008.
Robert Vasy	General Manager Toys, Nursery & Sporting – resigned effective 14 January 2008.

Key management personnel compensation

The aggregate compensation made to key management personnel of the group and the company is set out below:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short-term employee benefits	2,883,521	2,531,545	2,883,521	2,288,077
Post-employment benefits	365,683	202,328	365,683	196,469
Termination benefits	119,089	-	119,089	-
Share-based payment	(128,740)	(46,870)	(128,740)	(50,501)
	3,239,553	2,687,003	3,239,553	2,434,045

Notes to the Financial Statements

31 December 2008

NOTE 41: 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 35 to the financial statements.

b) Transactions with Key Management Personnel

Key management personnel compensation.

Details of key management personnel compensation are disclosed in Note 40 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 (2007: 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.

2008	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
Directors						
Graeme Yeomans ⁽¹⁾	-	-	-	-	-	-
David Berry	-	-	-	-	-	-
Antony Lynch	-	-	-	-	-	-
David Hendy ⁽²⁾	-	-	-	-	-	-
Tony Oates ⁽³⁾	500,000	250,000	-	-	750,000	-
Executives						
Stewart Downs ⁽⁴⁾	-	200,000	-	-	200,000	-
Ray Dixon	-	-	-	-	-	-
Adam Kocks	-	-	-	-	-	-
Paul Cannon ⁽⁵⁾	157,143	-	-	-	157,143	-
Ed Medica	-	-	-	-	-	-
Jeff Hunter	-	-	-	-	-	-
Karl Nixon ⁽⁶⁾	390,000	-	-	(390,000)	-	-
Mark Scott ⁽⁷⁾	100,000	-	-	(100,000)	-	-
Robert Vasy ⁽⁸⁾	75,000	-	-	(75,000)	-	-

(1) Mr G Yeomans – appointed Interim Chairman effective 24 September 2008;

(2) Mr D Hendy – retired effective 24 September 2008;

(3) Mr T Oates resigned effective 19 February 2009;

(4) Mr S Downs appointed GM Toys & Sporting 1 February 2008, appointed CEO effective 19 February 2009;

(5) Mr P Cannon – made redundant effective 25 February 2009;

(6) Mr K Nixon – made redundant 24 April 2008;

(7) Mr M Scott – transferred upon sale of publishing business effective 19 February 2008;

(8) Mr R Vasy – resigned effective 14 January 2008.

Notes to the Financial Statements

31 December 2008

NOTE 41: Related party transactions (continued)

2007	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
Directors						
David Hendy	-	-	-	-	-	-
Moshe Meydan	-	-	-	-	-	-
Tony Oates	400,000	250,000	(150,000)	-	500,000	-
David Berry	-	-	-	-	-	-
Antony Lynch	-	-	-	-	-	-
Graeme Yeomans	-	-	-	-	-	-
Executives						
Paul Cannon	157,143	-	-	-	157,143	-
Colin Caulfield	312,373	170,000	-	(482,373)	-	-
Jeff Hunter	-	-	-	-	-	-
Ed Medica	-	-	-	-	-	-
Karl Nixon	336,949	170,000	-	(116,949)	390,000	50,000
Mark Scott	100,000	-	-	-	100,000	-
Robert Vasy	175,000	-	-	(100,000)	75,000	75,000

Performance Share Right holdings

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

2008	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⁾	-	-	-	-	-	-
Ray Dixon ⁽²⁾	-	-	-	-	-	-
Adam Kocks ⁽³⁾	-	20,000	-	-	20,000	-
Paul Cannon ⁽⁴⁾	30,000	30,000	-	-	60,000	-
Ed Medica ⁽⁵⁾	55,000	30,000	-	(85,000)	-	-
Jeff Hunter ⁽⁶⁾	25,000	30,000	-	-	55,000	-
Robert Vasy ⁽⁷⁾	60,000	-	-	(60,000)	-	-
Mark Scott ⁽⁸⁾	30,000	-	-	(30,000)	-	-
Karl Nixon	-	-	-	-	-	-

- (1) Mr S Downs appointed GM Toys & Sporting 1 February 2008, appointed CEO effective 19 February 2009;
(2) Mr R Dixon appointed 28 April 2008 remuneration paid as fees to third party consultancy until his appointment on a 12 month fixed term contract on 21 December 2008;
(3) Mr A Kocks granted additional responsibility in respect of the supply chain across the company from 1 January 2008

- (4) Mr P Cannon redundant effective 25 February 2009;;
(5) Mr E Medica resigned effective 26 December 2008.
(6) Mr J Hunter – terminated effective 19 February 2009;
(7) Mr R Vasy – resigned effective 14 January 2008;
(8) Mr M Scott – transferred upon sale of publishing business effective 19 February 2008.

Notes to the Financial Statements

31 December 2008

NOTE 41: Related party transactions (continued)

	Balance at the start of the year	Granted during the year as remuneration	Exercised During the year	Other Changes during the year i.e. lapsed	Balance at the end of the year	Vested and exercisable at the end of the year
2007						
Executives						
Paul Cannon	-	30,000	-	-	30,000	-
Colin Caulfield	-	-	-	-	-	-
Jeff Hunter	-	25,000	-	-	25,000	-
Ed Medica	25,000	30,000	-	-	55,000	-
Karl Nixon	-	-	-	-	-	-
Robert Vasy	30,000	30,000	-	-	60,000	-
Mark Scott	-	30,000	-	-	30,000	-

Share holdings

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

	Balance at the start of the year	Received during the year on the exercise of options	Shares purchased during the year	Shares sold during the year	Balance at the end of the year or date of retirement / resignation
2008					
Directors					
Graeme Yeomans	250,000	-	-	-	250,000
David Berry	155,109	-	-	-	155,109
Antony Lynch	20,000	-	49,380	-	69,380
Tony Oates ⁽¹⁾	818,938	-	-	-	818,938
David Hendy ⁽²⁾	2,599,650	-	-	-	2,599,650
Executives					
Stewart Downs ⁽³⁾	-	-	636,388	(50,000)	586,388
Karl Nixon ⁽⁴⁾	50,000	-	-	-	50,000
Ray Dixon	-	-	-	-	-
Mark Scott	-	-	-	-	-
Paul Cannon	-	-	-	-	-
Adam Kocks	-	-	-	-	-
Ed Medica	-	-	-	-	-
Jeff Hunter	-	-	-	-	-
Robert Vasy	-	-	-	-	-

(1) Mr T Oates resigned effective 19 February 2009;

(2) Mr D Hendy - retired effective 24 September 2008;

(3) Mr S Downs - appointed GM Toys & Sporting 1 February 2008, appointed CEO effective 19 February 2009

(4) Mr K Nixon – made redundant 24 April 2008.

Notes to the Financial Statements

31 December 2008

NOTE 41: Related party transactions (continued)

2007	Balance at the start of the year	Received during the year on the exercise of options	Shares purchased during the year	Shares sold during the year	Balance at the end of the year or date of retirement / resignation
Directors					
David Hendy	4,599,650	-	-	(2,000,000)	2,599,650
David Berry	183,314	-	5,224	(33,429)	155,109
Harry Boon	20,000	-	-	-	20,000
Antony Lynch	13,267	-	-	-	13,267
Moshe Meydan	7,946,479	-	-	(1,500,000)	6,446,679
Tony Oates	608,938	150,000	60,000	-	818,938
Graeme Yeomans	-	-	250,000	-	250,000
Executives					
Paul Cannon	-	-	-	-	-
Colin Caulfield	412,680	-	-	(349,036)	63,644
Jeff Hunter	-	-	-	-	-
Ed Medica	-	-	-	-	-
Karl Nixon	50,000	-	-	-	50,000
Robert Vasy	-	-	-	-	-
Mark Scott	-	-	-	-	-

c) Transactions with other related parties

Transactions between Funtastic Limited and other entities in the wholly-owned group during the years ended 31 December 2008 and 2007 consisted of:

- 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.

Notes to the Financial Statements

31 December 2008

NOTE 41: Related party transactions (continued)

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

	Consolidated		Company	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Loans to controlled entities	-	-	2,366	5,420
Loans from controlled entities	-	-	1,247	9,732
Sale of product to controlled entity	-	-	789	786
Interest charged to controlled entity	-	-	174	132
Provision of management services to controlled entities	-	-	292	6,786
Management services provided by controlled entities	-	-	1,223	1,306

d) Transactions with Key Management Personnel

2008

There were no transactions with key personnel in the current year, other than those disclosed in the remuneration report.

2007

Mr D Berry, a director and company secretary, was a partner of the accounting firm O'Keeffe Walton Berry, which provided company secretarial services to Funtastic Limited during 2007. The services were provided on an arms length basis and the service agreement is based on normal terms and conditions. As at 31 December 2007 the amount payable was \$Nil.

Mr D Hendy was a director (retired effective 24 September 2008) and had an interest in Hendy Properties Pty Limited. Funtastic had a lease agreement to rent an office building owned jointly by Hendy Properties Pty Ltd and Tolmer Products Pty Ltd. The lease agreement was based on normal terms and conditions and supported by independent valuation. During 2007, Funtastic entered into a deed of surrender in respect of the lease agreement with Hendy Properties the terms of which amount to a surrender payment of \$100,000 which was owing at 31 December 2007 to Hendy Properties Pty Ltd.

Mr D Hendy was a director (retired effective 24 September 2008) and had an interest in Headstart International Pty Limited. During 2007 the company purchased products on normal commercial terms. At 31 December 2007 the amount payable was \$Nil.

Mr M Meydan (retired 25 June 2007) had an interest in the following entities which either provided property on lease or acquired products from the company during the financial year:

Lucky Bay Pty Limited. Funtastic entered into a lease agreement to rent a warehouse and office building owned by this company. The lease agreement is based on normal terms and conditions and supported by independent valuation. At 31 December 2007 the amount payable was \$Nil.

Thornhills Pty Limited. Funtastic entered into a lease agreement to rent a warehouse and office building owned by this company. At 31 December 2007 the amount payable was \$Nil.

Vestito Pty Limited purchased clothing and apparel from Funtastic Limited. The purchases were on normal terms and conditions. At 31 December 2007 the amounts payable were \$876,930. Mr Meydan provided a guarantee in favour of Funtastic in relation to any debts incurred by Vestito Pty Limited up to and including 31 December 2007.

Notes to the Financial Statements

31 December 2008

NOTE 41: Related party transactions (continued)

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

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Company Secretarial Services	-	67,707	-	67,707
Rent of Office and Warehouse Buildings				
Lucky Bay Pty Limited	-	858,754	-	858,754
Thornhills Pty Limited	-	88,037	-	88,037
Hendy Properties Pty Limited ⁽¹⁾	-	195,524	-	195,524
	-	1,142,315	-	1,142,315
Purchase of products				
Headstart International Pty Limited	-	18,827	-	18,827
Sale of clothing and apparel				
Vestito Pty Limited	-	3,029,555	-	3,029,555
	-	3,029,555	-	3,029,555

(1) The amount payable to Hendy Properties included \$100,000 for cancellation of a lease

NOTE 42: Remuneration of Auditors

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Auditor of the parent entity				
Audit and review of the financial reports of the entity	361,000	311,000	271,000	261,000
Other associated auditors	35,000	35,000	35,000	35,000
Other services	333,000	35,000	333,000	35,000
	729,000	381,000	639,000	296,000

The auditor of Funtastic Limited is Deloitte Touche Tohmatsu.

NOTE 43: 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.

NOTE 44: Contingent liabilities

The company has no material contingent liabilities that would require recognition or disclosure in the financial report.

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Additional stock exchange information as at 25 March 2009

Distribution of equity securities

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

Ordinary Shares			
Range	Holders	Options	Performance share rights
1 – 1,000	1,084	-	-
1,001 – 5,000	2,539	-	2
5,001 – 10,000	1,078	-	1
10,001 – 100,000	1,179	-	17
100,001 and over	101	3	-
	5,981	3	20

There are 2,498 shareholders holding less than a marketable parcel of ordinary shares.

Substantial holders

Substantial holders in the company are set out below:

	Shares	%
Bell Potter Nominees Ltd	22,483,138	13.59
Russett Pty Ltd	17,000,000	10.27
HSBC Custody Nominees (Australia) Limited	10,226,171	6.18
National Nominees	9,109,194	5.50
	58,818,503	35.54

Additional stock exchange information as at 25 March 2009

Twenty largest quoted equity security holders.

		Shares	%
1	Bell Potter Nominees Ltd	22,483,138	13.59
2	Russett Pty Ltd	17,000,000	10.27
3	HSBC Custody Nominees (Australia) Limited	10,226,171	6.18
4	National Nominees Australia Limited	9,109,194	5.50
5	J P Morgan Nominees Australia Limited	7,148,103	4.32
6	NSR Toys Pty Ltd	5,453,219	3.30
7	Mr Vincent Michael O'Sullivan	5,150,192	3.11
8	Pizmony Investment Company Pty Ltd	5,000,000	3.02
9	Citicorp Nominees Pty Limited	3,906,884	2.36
10	Clausen Investments Pty Ltd	3,300,000	1.99
11	ANZ Nominees Limited (Cash Income A/C)	1,736,364	1.05
12	ANZ Nominees Limited (Income Reinvest Plan A/C)	1,697,340	1.03
13	Mr Christopher Ian Wallin & Ms Fiona Kay Wallin (Chris Wallin Superfund A/C)	1,596,247	0.96
14	Mr Vincent Michael O'Sullivan & Mrs Diane Marie O'Sullivan (The Trickster S/F A/C)	1,408,670	0.85
15	Mr Nir Pizmony & Mrs Maria Lutgarda Pizmony (Pizmony Family Superfund A/C)	1,190,000	0.72
16	Holdrey Pty Ltd (The Don Mathieson Family A/C)	1,140,219	0.69
17	Manny Holdings Pty Ltd (Juston Distributors S/F A/C)	1,116,256	0.67
18	UBS Wealth Management Australia Nominees Pty Ltd	1,042,387	0.63
19	Deborah Holdings Pty Ltd	826,300	0.50
20	Wiseman Wiegard Pty Ltd (The Crusty Wiegard S/F A/C)	777,935	0.47
		101,308,619	61.21

Additional stock exchange information as at 25 March 2009

Unquoted equity securities

	Number on Issue	Number of holders
Options issued under the Funtastic Executive Share Option Plan	1,107,143	3
Performance share rights issued under the Funtastic Employee Performance Share Rights Plan	507,500	20
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