

## 2009 Annual Report



ACN 063 886 199

# Message to Shareholders

## Introduction

On behalf of the Board of Directors of Funtastic Limited we present to you our 2009 Annual Report.

2009 was a year of transformation for the Company. The initiatives previously foreshadowed to reposition the business for sustainable future growth were executed during the year, these included the following:

- Completion of a fully underwritten Rights Issue raising additional cash of \$22.3m;
- Acquisition of 100% of the shares in NSR (HK) Ltd;
- Divestment of non-core operating units; and
- Securing ongoing bank facilities to June 2011 and a reduction of debt of \$10.4m.

Additionally, there has been major board and senior management changes with 5 of the 6 directors having been appointed since December 2008 and the entire management team having been replaced during the same period.

## The Year in Review

Revenue from continuing operations was disappointing - the business was impacted by the challenging economic environment, particularly in the key pre Christmas trading period; the ongoing impact on our Childcare business from the collapse of ABC Group in 2008; various brand portfolio changes and a significant reduction in turnover in our Interactive business reflecting much weaker demand. The standout performer during the year was the Madman entertainment business which saw sales growth of over 24%.

The weak Australian dollar in early 2009 resulted in higher input costs for the bulk of the year's purchases, the weaker demand meant that these higher costs could not be recovered through price rises and resulted in dilution of gross profit for the year. This was exacerbated by a build-up of inventories resulting from the suppressed demand; the clearance of these inventories further impacted margins.

## Items impacting the full year result

A number of items impacted the results for 2009, these included:

- Impairment of the remaining Judius goodwill of \$14.7m and Softgoods/Nursery goodwill of \$2.8m;
- Losses on the sale of the non-core business units of Apparel, Footwear, Planet Fun, and Manchester of \$12.5m; trading losses from these businesses up to the date of sale amounted to a further \$6.0m;
- Restructuring and site consolidation costs of \$2.3m
- Included within continuing operations were the losses from the Interactive business of \$9.0m, the group is withdrawing from this business in the first half of 2010.

## Outlook for 2010

The Board of Directors believe that the key challenges which have had such an adverse impact on the business over the last 2 years have either been resolved, or that actions have been taken to mitigate the ongoing impact. The company's foreign exchange hedging policy has been reengineered to provide a greater degree of certainty over future effective exchange rates; this will help to smooth the impact of future exchange rate volatility.

The transformation undertaken throughout 2009 has resulted in a much simplified Company with a highly skilled management team, totally focused on restoring the profitability of the business. The Board believes that Funtastic has an exceptional portfolio of brands, excellent systems and passionate and dedicated employees, the combination of which, they are confident, will result in a return to profitability in 2010.

The Directors would like to thank all of our staff and customers for their ongoing loyalty throughout what has been a particularly challenging year.



Graeme Yeomans  
Chairman of the Board



Stewart Downs  
Managing Director

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## Company Information

Directors	<p>Graeme Yeomans <i>Chairman and Independent Non- Executive Director</i></p> <p>Stewart Downs <i>Managing Director and Chief Executive Officer</i></p> <p>Shane Tanner FCPA, ACIS <i>Independent Non-Executive Director</i></p> <p>Nir Pizmony <i>Executive Director</i></p> <p>Craig Mathieson B.Bus <i>Non- Executive Director</i></p> <p>James Flintoft LL.B./B.Sc., MBA (Wharton) <i>Independent Non-Executive Director</i></p>
Company Secretary	James Cody
Registered Office	Level 2 Tower 2 Chadstone Place 1341 Dandenong Road Chadstone Vic 3148
Principal Administrative Office	Level 2 Tower 2 Chadstone Place 1341 Dandenong Road Chadstone Vic 3148
Share Registry	<p>Computershare Investor Services Pty Limited</p> <p>Yarra Falls</p> <p>452 Johnston Street</p> <p>Abbotsford Vic 3067</p>
Auditors	<p>Deloitte Touche Tohmatsu</p> <p>550 Bourke Street</p> <p>Melbourne Vic 3000</p>
Bankers	<p>National Australia Bank</p> <p>535 Bourke Street</p> <p>Melbourne Vic 3000</p>
Solicitors	<p>Freehills</p> <p>101 Collins Street</p> <p>Melbourne Vic 3000</p>

## 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 2009 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:

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

Board members have complete and open access to management. The company secretary provides advice and support to the Board and is

responsible for the company's day to day governance framework.

### Structure of the Board

The Board comprises four non-executive directors and two executive directors (the Managing Director/Chief Executive Officer and the Executive Director). The details of each director's qualifications, experience and skills are set out on page 12 of the Annual Report.

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

### Board Membership

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

- § the Board should comprise between 3 and 9 directors;
- § the maximum age for directors is 72;
- § the Board should comprise directors with a broad range of skills and experience; and
- § the term of any appointment is subject to continuing shareholder approval.

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

### Board and Director Independence

The Board has assessed the criteria for independence as outlined in the ASX Corporate Governance Council's best practice recommendation 2.1. Independent directors of Funtastic are those not involved in the day to day management of the company and are free from any real or reasonably perceived business or

other relationship that could materially interfere with the exercise of their unfettered and independent judgement.

Currently, three of the six directors are considered to be independent. It is the Board's view Mr Shane Tanner, Mr James Flintoft and Mr Graeme Yeomans are independent directors.

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

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

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

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

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

Funtastic has noted the ASX Corporate Governance Council's best practice recommendation that listed companies have an independent director as Chairman of the Audit, Risk and Compliance Committee. This Committee is comprised of two independent non executive directors. Shane Tanner is the chairman of the committee, he is independent and is currently the most suitably qualified person because of his background as a Fellow Certified Practicing Accountant (FCPA) and has a career as a Chief Financial Officer of a Top 20 ASX listed company. The Board considers that two independent directors on the committee are 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 (Cth)* and Funtastic's Constitution, directors must keep the Board advised on an ongoing basis, of any interest that could potentially conflict with those of Funtastic. Where the Board believes that a significant conflict exists, the director concerned does not receive the relevant Board papers and is not present at the meeting while the item is considered.

#### Independent Professional Advice

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

#### Communication and disclosure

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

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

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



## Director competencies

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

New directors are provided with a letter of appointment setting out the company's expectations, their responsibilities, rights and the terms and conditions of their appointment. All new directors participate in an induction program which covers the operation of the Board and its committees and financial, strategic, operations and risk management issues.

## Ethical Standards

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

## Dealings in Funtastic shares by Directors, Officers and Employees

The Board permits directors to acquire shares in Funtastic. It is recommended that all employees do not buy or sell shares in the company at any time they are aware of any material price sensitive information that has not been made public, and are reminded of the laws against "insider trading". Certain "Designated Officers", including all directors and senior executives, are also prohibited from trading 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 (Clth)* and the Listing Rules of the Australian Stock Exchange (ASX), directors or their related entities advise the ASX of any transaction conducted by them in buying or selling any shares in Funtastic.

## Ethical Compliance

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

## Nomination Committee

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

#### Audit, Risk and Compliance Committee Charter and Responsibilities

The Committee's key responsibilities and functions are to:

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

#### Meetings of the Audit, Risk and Compliance Committee

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

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

#### Reporting by the Audit, Risk and Compliance Committee

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

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

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

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

#### Recognising and managing risk

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

- § the company's ongoing risk management program effectively identifies areas of potential risk;
- § adequate policies and procedures are designed and implemented to manage identified risks;

- § a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
- § appropriate remedial action is undertaken to redress areas of weakness.

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

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

#### Management Certification Process

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

- § provide assurance to the Board to support their approval of the annual financial reports;

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

The key steps in the certification process are as follows:

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

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

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

#### Internal Audit Function

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

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

#### Remuneration and Evaluation Committee

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

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 and Evaluation Committee Charter and Responsibilities

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

- § the company's policy for determining executive and non-executive directors remuneration, superannuation, and incentives as well as any retention or other compensation payments, and any proposed amendments to the policy;
- § remuneration includes base pay, incentive payments, equity awards, retirement rights and service contracts;
- § the implementation of the remuneration policy;
- § the proposed specific remuneration for each non-executive and executive director, including the Chief Executive Officer, having regard to independent advice and the

remuneration policy. The committee will need to determine whether any shareholder approvals are required. The remuneration of individual non-executive directors will ultimately be determined by the Board and, approved in aggregate by the shareholders in accordance with the *Corporations Act 2001 (Cth)* 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 2009.

### 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	<p>Joined the Board in September 2007 as an Independent Non-executive director. Mr Yeomans is a member of the Remuneration and Evaluation Committee and Chairman of the Nomination Committee. Mr Yeomans was appointed Chairman of the Board on 24 September 2008.</p> <p>Mr Yeomans is a former Managing Director of Associated Retailers Ltd and Repco Ltd. He has also held directorships with Sterihealth Ltd and Finance Management Solutions Ltd.</p> <p>On 24 March 2010 Mr Yeomans announced his intention to stand down from the board following the AGM in May 2010.</p>
Stewart Downs Managing Director and Chief Executive Officer	<p>Joined the Board in August 2009. Mr Downs has been the Chief Executive Officer of Funtastic since February 2009.</p> <p>Mr Downs has had an expansive career in branded consumer businesses across Australia, New Zealand and Asia successfully leading turnarounds in Australia and developing new businesses in Asia. He has held roles across sales, marketing, finance and in the last 10 years senior general management positions.</p> <p>He has a Bachelor of Business and Commercial majoring in Economics, Business Administration and Accountancy.</p>
Shane Tanner FCPA, ACIS Independent Non-executive director	<p>Appointed to the Board in March 2009 as an Independent Non-executive director. Mr Tanner is a Chairman of the Audit, Risk and Compliance Committee and of the Remuneration and Evaluation Committee and a member of the Nomination Committee.</p> <p>He is Chairman of Vision Group Holdings Ltd and Paragon Care Ltd. Mr Tanner is a former CEO of Mayne Nickless Diagnostic Services and Director of Sterihealth Ltd. Mr. Tanner has a vast commercial and financial experience.</p> <p>On 24 March 2010 the Board announced its intention to appoint Mr Tanner as Chairman of the Board, the appointment will be effective from the AGM in May 2010.</p>
Craig Mathieson B.Bus Non-executive director	<p>Appointed to the board in August 2009 as a Non-executive director. Mr Mathieson is a member of the Audit, Risk and Compliance Committee and of the Nomination Committee.</p> <p>Mr. Mathieson is CEO of The Mathieson Group. He was MD of DMS Glass from 2001 to 2007. He has a banking and commercial background gained while working with Business Banking division of ANZ Bank and Property Finance division of St George Bank.</p>
Nir Pizmony Executive director	<p>Appointed to the board in August 2009 as an Executive director. Mr Pizmony has over twenty-five years experience in consumer products, he has founded, developed and subsequently sold two successful toy companies. Nir's knowledge and reputation in the toy industry is well proven both in Australia and globally.</p>

## Directors' Report (continued)

James Flintoft LL.B./B.Sc., MBA Independent Non-executive director	Appointed to the Board in January 2010 as an Independent Non-executive director. Mr Flintoft is a member of the Audit, Risk and Compliance Committee and of the Remuneration and Evaluation Committee.  Mr. Flintoft brings a range of operational, financial and strategic capabilities to the Board of Funtastic Ltd. He has led a large, diverse businesses including as Managing Director, Business Banking at ANZ Banking Corporation; he developed his strategic skills during his time at McKinsey & Company and more recently as Managing Director, Asia Strategy at ANZ Banking Corporation.
David Berry B.Com., FCA, FTIA Non-executive director and Company Secretary	Chartered Accountant who joined the Board in May 2000 as a Non-executive director. Mr Berry was Chairman of the Audit, Risk and Compliance Committee, a member of the Nomination committee and was also the Company Secretary until his resignation on 20 October 2009.
Antony Lynch B.Com Independent Non-executive director	Appointed to the Board in May 2006 as an Independent Non-executive director. Mr Lynch was Chairman of the Remuneration and Evaluation Committee, member of the Audit, Risk and Compliance Committee and of the Nomination Committee until his resignation on 22 October 2009.
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
Stewart Downs	None	
Shane Tanner	Vision Group Holdings Limited	2004 to current
	Paragon Care Limited	2005 to current
	Sterihealth Limited	2001 to 2008
Craig Mathieson	None	
Nir Pizmony	None	
James Flintoft	None	

### Company Secretary

Mr. David Berry, B.Com, FCA, FTIA, was Company Secretary until his resignation on 20 October 2009. Mr John Osborne was appointed Interim Company Secretary on 20<sup>th</sup> October 2009 and he resigned from his position on 26 March 2010 when Mr. James Cody was appointed to the position of Company Secretary on 26 March 2010.

### Principal activities

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

## Directors' Report (continued)

### Subsequent events

Since December 31, 2009 the decision was made not to renew the Disney distribution agreement and to withdraw from the Interactive business unit. There have been no other major events since December 31, 2009 which have a material impact on the current financial position or the financial prospects of Funtastic Limited.

### Environmental regulations

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

### Review of operations

Key matters impacting the results for the year ended 31 December 2009 include the following:

- EBITA before impairment and restructure costs from continuing operations, a loss of \$22.0m;
- divestment of the non-core business units of Softgoods and Toys New Zealand; these transactions generated cash of \$9.7m and resulted in a loss on sale of \$12.5m before tax;
- EBITA from discontinued operations (trading and divestment), a loss of \$18.0m;
- impairment of the remaining Judius goodwill (\$14.7m);
- completed a fully underwritten Rights Issue which raised additional cash of \$22.3m;
- acquisition of 100% of the shares in NSR (HK) Ltd (non cash);
- reduction of inventories by \$25.2m (44.6%) to \$31.0m;
- securing of ongoing bank facilities to June 2011 and reduction of debt by \$10.4m;
- replacement of the senior management team; and
- board changes – 5 of the 6 directors were appointed since December 2008.

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

	2009	2008	Variance	
\$'000	Actual	Actual	\$	%
Revenue				
Continuing operations	229,933	279,256	(49,323)	(17.66)%
Discontinued operations	45,027	88,961	(43,934)	(49.39)%
Group Revenue	274,960	368,217	(93,257)	(25.33)%
EBITA				
Continuing operations	(22,012)	23,142	(45,154)	>(100.0)%
Discontinued operations	(18,042)	7,291	(25,333)	>(100.0)%
EBITA before Impairment & Restructuring Costs	(40,054)	30,433	(70,487)	>(100.0)%
Impairment Charges	(17,528)	(61,741)	44,213	71.61%
Restructuring Costs	(2,717)	(21,627)	18,910	87.44%
Group EBITA	(60,299)	(52,935)	(7,364)	(13.91)%
NPAT	(58,052)	(50,847)	(7,205)	(14.17)%



## Directors' Report (continued)

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Revenue from continuing operations was down by 17.7%. This was due in part to the loss of revenue from ABC Learning Centres Limited following the collapse of ABC Group in November 2008. The tough economic environment, particularly in the pre Christmas trading period, had a negative impact on sales. Additionally brand portfolio changes resulted in lower year on year sales in the core Toys & Lifestyle Merchandise business, the key impacts being:

- Bratz supply suspended following litigation against the supplier, MGA, by Mattel. Following this litigation, Funtastic has been unable to secure supply of new ranges;
- poor performance of previous powerhouse brands of Thomas the Tank Engine, WWE and Tamigotchi.

Very strong sales from the Madman entertainment business (+24.4%) were largely offset by a similar decline in sales volume in the Interactive division due to poor consumer demand.

Gross Margin was adversely impacted by higher cost of goods sold. The impact of the weak Australian dollar in the early part of 2009 contributed to higher input costs for the majority of the year's purchases which were made in the first half of 2009. Funtastic was unable to pass these costs on through increased prices, and reduced demand resulted in excess inventory. Management were determined not to carry surplus inventory into 2010. Consequently a comprehensive inventory clearance exercise was undertaken as well as a thorough range rationalization, this clearance resulted in further margin erosion.

Additionally, following an impairment review, the Board elected to write off the remaining goodwill associated with the Judius business (\$14.7m), this business has now been rebranded as Funtastic Education.

Early in 2009 the Board made the decision to withdraw from the non-core business units of Apparel, Footwear, Planet Fun, Manchester and Accessories. Transactions to sell each of these business units were entered into and completed by the end of 2009. These transactions resulted in cash proceeds received in the year of \$9.7m (before costs) with an ongoing royalty stream estimated at a further \$4.9m to be received by January 31, 2011. The impact on profit of these divestments was a loss before tax of \$12.5m. The trading result of these businesses prior to disposal increased this loss by \$6.0m to \$18.0m.

A review of the Interactive Division was undertaken which concluded that, given the category economics, it would be extremely unlikely that Funtastic would generate acceptable returns in the future. Consequently the decision was made not to renew the Disney distribution agreement and to withdraw from the category in the first half of 2010. Notwithstanding this decision, Interactive's result, an EBITA loss for the year of \$9.0m, is included within continuing operations.

### Capital Raising and NSR Acquisition

On 14 August 2009, the Company completed the acquisition of the Hong Kong toy company, NSR (HK) Limited, and the fully underwritten one-for-one non renounceable rights issue, which raised \$22.3m.

The NSR (HK) Limited acquisition was funded by the issue of ten million shares valued at the date of completion at \$1.4m plus a deferred earn out over the following two years.

Following completion of the capital raising and the divestment of the non core business units, the business reduced debt by \$10.4m.

On 13 August 2009, the Company completed a re-negotiation of its banking facilities with National Australia Bank and entered into a new facilities agreement expiring in June 2011.



## Directors' Report (continued)

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### Looking Forward

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

- the Board is almost entirely new, with 5 of the 6 current directors having been appointed in the last twelve months;
- the senior management team has been completely restructured with the majority being new to the Company;
- management have reset the balance sheet through the actions taken in respect of inventory, goodwill impairment and the capital raising;
- the Toys and Lifestyle Merchandise business has been simplified and a clear growth strategy put in place around a core brand proposition and a more focused product range;
- in order to streamline processes, reduce supply chain costs and improve the culture, the Board of Directors decided to consolidate operations into a new Corporate office at Chadstone and into third party warehousing; and
- a new planning system has been implemented to more accurately control purchases and inventory levels.

Funtastic has recently secured the local and/or international rights to a number of new and existing brands, these include global manufacturing for the newly launched Lego® Plush line, the global selling, marketing and manufacturing rights for iconic Australian water confidence brand Floaties® and the global manufacturing and distribution rights for Noddy.

The portfolio of 2010 brands and products and the acquisition of NSR increases the international reach and competitive position of Funtastic by developing strength in manufacturing and intellectual property.

The Board believes that the company will progressively realize the benefits of these changes, and are confident that the tough decisions made during 2009 were necessary to refocus the Company into a simplified, more efficient operation which can compete more effectively and better respond to customer needs.

### Dividends

Since the end of the year the directors have decided not to declare a final dividend for the year ended 31 December 2009 (2008: Nil).

### Rounding of amounts to nearest thousand dollars

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

## Directors' Report (continued)

### Share Options

Share options and Performance Share Rights granted to directors and executives

During and since the end of the financial year an aggregate of 5,000,000 share options over unissued ordinary shares of Funtastic Limited were granted to the following directors and executives of the company as part of their compensation:

#### (a) Share Options

Directors and executives	Number of Options Granted	Issuing entity	Number of ordinary shares under option
Stewart Downs <sup>(1)</sup>	4,000,000	Funtastic Limited	4,000,000
Garry Mudford <sup>(2)</sup>	1,000,000	Funtastic Limited	1,000,000
Total	5,000,000		5,000,000

1. Mr. S Downs appointed CEO effective 19 February 2009 and appointed Managing Director effective 25 August 2009.
2. Mr. G Mudford was appointed General Manager TLM effective 10 August 2009

#### (b) Performance Share Rights

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

### Shares under option or issued on exercise of options

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

#### (a) Executive Share Options (ESOPs)

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

#### (b) Ordinary Options

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

## Directors' Report (continued)

### 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.

### Meetings of Directors

The numbers of meetings of the company's directors held during the year ended 31 December 2009 and the number of meetings attended by each director were:

	Board of directors		Audit, Risk and Compliance Committee		Remuneration and Evaluation Committee		Nomination Committee	
	A	B	A	B	A	B	A	B
G Yeomans	23	25	4	4	3	3	3	3
S Downs <sup>(1)</sup>	9	9	-	-	-	-	-	-
S Tanner <sup>(2)</sup>	19	20	3	3	1	1	1	1
C Mathieson <sup>(3)</sup>	9	9	1	1	-	-	1	1
N Pizmony <sup>(4)</sup>	8	9	-	-	-	-	-	-
A Lynch <sup>(5)</sup>	18	21	3	4	3	3	2	2
D Berry <sup>(6)</sup>	18	19	4	4	-	-	-	-
T Oates <sup>(7)</sup>	3	3	-	-	-	-	-	-

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

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

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

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

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

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

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

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
G Yeomans	500,000	-	-
S Downs	1,642,690	4,200,000	-
S Tanner	-	-	-
C Mathieson	86,310,728	-	-
N Pizmony	16,855,742	-	-
J Flintoft	1,350,848	-	-

## 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	Chairman and Independent Non-executive director
Stewart Downs	Managing director – appointed effective 25 August 2009; Chief Executive Officer – appointed effective 19 February 2009 & General Manager Toys & Sporting until 19 February 2009
Shane Tanner	Independent Non-executive director - appointed effective 19 March 2009.
Craig Mathieson	Non Executive director – appointed effective 25 August 2009
Nir Pizmony	Executive director – appointed effective 25 August 2009
James Flintoft	Independent Non-executive director - appointed effective 15 January 2010
David Berry	Non-executive director and Company Secretary - resigned effective 20 October 2009.
Antony Lynch	Independent Non-executive director- resigned effective 22 October 2009.
Tony Oates	Managing Director – resigned effective 19 February 2009

The highest remunerated group and company executives for the 2009 financial year were:

Stewart Downs	Chief Executive Officer - appointed CEO effective 19 February 2009 and Managing Director 25 August 2009.
Adam Kocks	General Manager Operations – appointed 2 July 2007
Chris Loverso	Commercial Director – resigned 23 November 2009
Ray Dixon	Chief Financial Officer – contract expired effective 1 December 2009
Tony Oates	Managing Director – resigned effective 19 February 2009.

And additional key management personnel for the 2009 financial year were:

James Cody	Chief Financial Officer – appointed 16 November 2009
Paul Cannon	General Manager Softgoods – redundant effective 25 February 2009.
Jeff Hunter	President Judius Worldwide – resigned effective 19 February 2009.
Garry Mudford	General Manager TLM – appointed 10 August 2009

## Directors' Report (continued)

### Remuneration Report (continued)

#### 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.

##### Compensation and company performance

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

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

As the company's performance deteriorated the total Short Term Incentive ("STI") eligible payments made in 2009 were Nil (2008:\$1,117,500) of the total amount of STI's available \$880,950 (2008: \$1,117,500). The long term financial incentive performance hurdle rates have not been achieved either in the financial years 2008 and 2009.

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 2009	Dec 2008	Dec 2007	Dec 2006	Dec 2005
NPAT (\$'000) <sup>(i)</sup>	(41,664)	(41,544)	5,749	12,068	21,611
EPS Basic (Cents) <sup>(ii)</sup>	(17.9)	(25.1)	3.2	9.4	17.1
Diluted EPS (Cents) <sup>(ii)</sup>	(17.9)	(25.1)	3.2	9.4	16.2
Total Dividends (\$'000)	Nil	Nil	13,023	13,575	11,373
Year End Share Price	0.22	0.18	0.65	1.62	1.71
Shares on Issue	340,997,682	165,498,841	165,498,841	132,760,618	124,278,603
Market Capitalisation (\$'000)	75,020	29,790	106,747	214,408	212,516

(i) NPAT from continuing operations

(ii) Basic & Diluted EPS from continuing operations

## Directors' Report (continued)

### Remuneration Report (continued)

#### Components of Compensation

##### Fixed Compensation

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

Fixed compensation includes contributions to superannuation and pension plans in accordance with relevant legislation or as contractually required. Fixed compensation is structured as a total employment cost package which may be delivered to the executive as a mix of cash and prescribed non-financial benefits at the executive's discretion. There are no guaranteed pay increases in any senior executive's contract.

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

##### At risk Compensation

##### Annual Bonus

The annual cash bonus represents the actual entitlements payable under Funtastic's annual short-term incentive 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.

In general, the performance measures for 2009 and 2008 were based on NPAT, Inventory Levels and product category earnings. In 2008 and 2009 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 and executives of the group are set out in the table below.

Directors and executives	Cash Bonus \$	Maximum Available Bonus \$	Paid %	Forfeited %
Stewart Downs <sup>(1)</sup>	-	240,000	-	100%
Adam Kocks	-	72,450	-	100%
Chris Loverso <sup>(2)</sup>	-	73,500	-	100%
Paul Cannon <sup>(3)</sup>	-	82,500	-	100%
Tony Oates <sup>(4)</sup>	-	240,000	-	100%
Jeff Hunter <sup>(5)</sup>	-	172,500	-	100%

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

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

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

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

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

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

- Adam Kocks – the board awarded a \$63,000 discretionary bonus in 2009, in recognition of his efforts in 2008. Granted 1 July 2009.
- Chris Loverso– the board awarded a \$59,500 discretionary bonus in 2009 in recognition of his efforts in 2008. Granted 1 July 2009.

## 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	
2009	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Directors											
Graeme Yeomans	138,144	-	-	-	12,433	-	-	-	-	150,577	-
Stewart Downs <sup>(1)</sup>	423,006	-	-	-	55,185	-	-	-	39,631	517,822	7.65%
Shane Tanner <sup>(2)</sup>	62,080	-	-	-	-	-	-	-	-	62,080	-
Craig Mathieson <sup>(3)</sup>	25,432	-	-	-	2,289	-	-	-	-	27,721	-
Nir Pizmony <sup>(4)</sup>	142,555	-	-	-	12,830	-	-	-	-	155,385	-
Antony Lynch <sup>(5)</sup>	65,146	-	-	-	5,863	-	-	-	-	71,009	-
David Berry <sup>(6)</sup>	129,670	-	-	-	68,327	-	-	-	-	197,997	-
Tony Oates <sup>(7)</sup>	60,974	-	-	-	26,402	-	-	1,035,265	(50,249)	1,072,392	(4.69)%
	1,047,077	-	-	-	183,329	-	-	1,035,265	(10,618)	2,254,983	
Executives											
Garry Mudford <sup>(8)</sup>	132,110	-	-	-	11,890	-	-	-	9,379	153,379	6.11%
Adam Kocks	208,073	63,000	-	16,214 <sup>(14)</sup>	24,511	-	-	-	4,043	315,841	1.28%
Chris Loverso <sup>(9)</sup>	154,446	59,500	-	-	25,924	-	-	94,219	(9,630)	324,459	(2.97)%
James Cody <sup>(10)</sup>	38,391	-	-	-	3,455	-	-	-	-	41,846	-
Ray Dixon <sup>(11)</sup>	286,733	-	-	-	25,806	-	-	8,349	-	312,539	-
Paul Cannon <sup>(12)</sup>	38,814	-	-	-	3,493	-	-	120,298	(36,269)	126,336	(28.71)%
Jeff Hunter <sup>(13)</sup>	57,708	-	-	-	2,885	-	-	89,448	(10,220)	139,821	(7.31)%
	916,275	122,500	-	16,214	97,964	-	-	303,965	-	1,414,221	
	1,963,282	122,500	-	16,214	281,293	-	-	1,3339,230	(53,315)	3,669,204	

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For information on share options and performance share rights granted to key management personnel refer to the tables on pages 24 to 27



## Directors' Report (continued)

	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 <sup>(1)</sup>	49,929	-	-	-	67,570	-	-	-	-	117,499	-
David Berry	105,096	-	-	-	47,583	-	-	-	-	152,679	-
Tony Oates <sup>(2)</sup>	440,366	-	-	-	39,634	-	-	-	20,391	500,391	4.08
Antony Lynch	80,275	-	-	-	7,225	-	-	-	-	87,500	-
David Hendy <sup>(3)</sup>	179,123	-	-	-	9,146	-	-	-	-	188,269	-
	854,789	-	-	-	171,158	-	-	-	20,391	1,046,338	
Executives											
Paul Cannon <sup>(4)</sup>	252,294	-	-	-	22,706	-	-	-	7,768	282,768	2.75
Ray Dixon <sup>(5)</sup>	329,770	-	-	-	1,248	-	-	-	-	331,018	-
Stewart Downs <sup>(6)</sup>	303,599	180,000	-	-	27,324	-	-	-	2,951	513,874	0.57
Adam Kocks <sup>(7)</sup>	187,973	4,000	-	-	14,494	-	-	-	1,283	207,750	0.62
Ed Medica <sup>(8)</sup>	120,353	-	33,607 <sup>(13)</sup>	-	103,038	-	-	-	(12,362)	244,636	(5.05)
Karl Nixon <sup>(9)</sup>	78,126	-	-	-	7,031	-	-	119,089	(66,602)	137,644	(48.38)
Jeff Hunter <sup>(10)</sup>	330,243	51,420	-	-	11,444	-	-	-	9,508	402,615	2.36
Robert Vasy <sup>(11)</sup>	27,117	-	-	-	2,440	-	-	-	(63,176)	(33,619)	>100
Mark Scott <sup>(12)</sup>	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, remunerations 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 payments represents is redundancy payment based on service agreement notice period of 3 months and years of service;

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

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

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

(13) Payout of car lease upon resignation.

## Directors' Report (continued)

### Remuneration Report (continued)

#### Share Options/Share Performance Right Plans

The company's long-term incentive arrangements are designed to link executive compensation with growth in shareholder value through the grant of options or rights over equity securities (shares) in the company. Options are granted under the company's Executive Share Option Plan (ESOP) which was approved by shareholders and directors of the company on 2 August 2000. Performance Share Rights are granted under the Funtastic Employee Performance Share Rights Plan (EPSR) which was established in 2005.

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

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

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

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

#### Share Options/Share Performance Rights granted

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
2009									
Directors									
Stewart Downs	21/08/2009	35	4,000,000	10/08/2014	\$0.135	\$0.072	-	-	3
Executives									
Garry Mudford	21/08/2009	36	1,000,000	10/02/2014	\$0.135	\$0.072	-	-	3
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

## 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
2009									
Tony Oates	11/05/2006	25	250,000	31/03/2011	1.86	0.22	100%	-	1
Paul Cannon	15/08/2006	27	157,144	02/09/2011	1.64	0.30	100%	-	2

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

There were no PSR's issued during 2009.

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
2009									
Paul Cannon	03/07/2008	35	30,000	02/09/2011	Nil	\$0.39	100%	-	2
Adam Kocks	03/07/2008	35	20,000	02/09/2011	Nil	\$0.39	-	-	2
Jeff Hunter	03/07/2008	35	30,000	02/09/2011	Nil	\$0.39	100%	-	2

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
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	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

There were no Performance Share Rights granted in previous years which have impacted current year remuneration

#### 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.

## Directors' Report (continued)

### Remuneration Report (continued)

#### *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).

#### *Performance condition 3*

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

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

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

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

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

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

## 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 <sup>(1)</sup>	291,533	-	-	39,631	7.7%
Garry Mudford <sup>(2)</sup>	72,883	-	-	9,379	6.1%
Adam Kocks	-	-	-	4,043	1.3%
Chris Loverso <sup>(3)</sup>	-	-	4,800	(9,630)	(3.0)%
Paul Cannon <sup>(4)</sup>	-	-	4,200	(36,269)	(28.7)%
Tony Oates <sup>(5)</sup>	-	-	-	(50,249)	(4.7)%
Jeff Hunter <sup>(6)</sup>	-	-	7,700	(10,220)	(7.3)%

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

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

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

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

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

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

The model inputs for options granted during the year ended 31 December 2009 are below. There were no EPSRs granted in 2009

Option Number	35	36
Grant Date	21/08/09	21/08/09
Vesting Dates	10/08/10, 10/08/11& 10/08/12	10/08/10, 10/08/11& 10/08/12
Expiry Date	10/08/14	10/08/14
Exercise price	\$0.135	\$0.135
Stock Price at Issue	\$0.20	\$0.20
Expected Life (years)	4.4	4.4
Volatility	60%	60%
Risk free rate	6.60%	6.60%
Dividend yield	4.0%	4.0%
Vesting period (years)	N/A	N/A
Value	\$0.072	\$0.072

## Directors' Report (continued)

### Remuneration Report (continued)

#### 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.

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 or preceding year.

#### 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Directors' Report (continued)

### Remuneration Report (continued)

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	500,000	250,000	-	-	750,000	-
Executives						
Stewart Downs	-	200,000	-	-	200,000	-
Ray Dixon	-	-	-	-	-	-
Adam Kocks	-	-	-	-	-	-
Paul Cannon	157,143	-	-	-	157,143	-
Ed Medica	-	-	-	-	-	-
Jeff Hunter	-	-	-	-	-	-
Karl Nixon	390,000	-	-	(390,000)	-	-
Mark Scott	100,000	-	-	(100,000)	-	-
Robert Vasy	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.

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

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

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

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

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

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

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

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

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

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	-	20,000	-	-	20,000	-
Tony Oates	-	-	-	-	-	-
Paul Cannon	30,000	30,000	-	-	60,000	-
Ed Medica	55,000	30,000	-	(85,000)	-	-
Jeff Hunter	25,000	30,000	-	-	55,000	-
Karl Nixon	-	-	-	-	-	-
Robert Vasy	60,000	-	-	(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.

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

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

	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	818,938	-	-	-	818,938
David Hendy	2,599,650	-	-	-	2,599,650
Executives					
Stewart Downs	-	-	871,445	(50,000)	821,445
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 - 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 2009 of \$150,000.

§ Payment of a termination benefit on early termination by the employer is not applicable.

#### Stewart Downs – Managing Director & Chief Executive Officer - (appointed CEO 19 February 2009 and Managing Director 25 August 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 2009 of \$480,000.

§ 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.

#### Shane Tanner – Independent Non-executive Director – (appointed 19 March 2009)

§ Term of the agreement - full-time permanent and no specific term.

§ Base salary, inclusive of superannuation, for the year ended 31 December 2009 of \$85,000.

§ Payment of a termination benefit on early termination by the employer is not applicable.

#### Craig Mathieson – Non-executive Director - (appointed 25 August 2009)

§ Term of the agreement - full-time permanent and no specific term.

§ Base salary, inclusive of superannuation, for the year ended 31 December 2009 of \$77,500.

§ Payment of a termination benefit on early termination by the employer is not applicable.

#### Nir Pizmony – Executive Director - (appointed 25 August 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 2009 of \$400,000.

§ 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.

#### Antony Lynch – Independent Non-executive Director – (resigned effective 22 October 2009)

§ Term of the agreement - full-time permanent and no specific term.

§ Base salary, inclusive of superannuation, for the year ended 31 December 2009 of \$87,500.

§ Payment of a termination benefit on early termination by the employer is not applicable.

#### David Berry - Non-executive Director and Company Secretary - (resigned effective 20 October 2009)

§ Term of the agreement - full-time permanent and no specific term.

§ Base salary, inclusive of superannuation, for the year ended 31 December 2009 of \$85,000.

§ Payment of a termination benefit on early termination by the employer is not applicable.

### Remuneration Report (continued)

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 2009 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 restraint of trade and termination. The termination payment was 3 months which was in accordance with his employment contract.

Garry Mudford - General Manager TLM - (appointed 10 August 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 2009 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.

Chris Loverso – Commercial Director - (resigned 23 November 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 2009 of \$210,000
- § 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.

James Cody - Chief Financial Officer - (appointed 16 November 2009) and Company Secretary (appointed 26 March 2010)

- § 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 2009 of \$320,000
- § 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.

Adam Kocks - General Manager – Operations – (appointed General Manager - Asia 1 January 2010)

- § 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 2009 of \$241,500.
- § 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.

Ray Dixon - Chief Financial Officer – (contract expired effective 1 December 2009)

- § Term of the agreement – full time permanent and one year fixed term
- § On 21 December 2008 a fixed term contract of 1 year was entered into for a base salary of \$340,000.
- § 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)

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### Remuneration Report (continued)

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 2009 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.

Jeff Hunter – President – Judius Worldwide – (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 2009 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)

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### 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 41 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit, Risk and Compliance Committee, for the following reasons:

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

### Auditor's independence declaration

A copy of the Auditors' Independence Declaration as required under section 307C of the *Corporations Act 2001 (Clth)* is set out on page 36 of this annual report.

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

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

### Early adoption of accounting standards

The directors have resolved to early adopt AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*, which only requires disclosure of total segment assets for each reportable segment if such amounts are regularly provided to the chief operating decision maker.



Graeme Yeomans  
Chairman

Melbourne

Date: 31 March 2010

## Auditor's Independence Declaration



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

31 March 2010

Dear Board Members

**Funtastic Limited**


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

As lead audit partner for the audit of the financial statements of Funtastic Limited for the financial year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

  
DELOITTE TOUCHE TOHMATSU

  
Tom Imbesi  
Partner  
Chartered Accountants

Member of  
**Deloitte Touche Tohmatsu**



## Independent Auditor's Report



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### Independent Auditor's Report to the members of Funtastic Limited

We have audited the accompanying financial report of Funtastic Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 39 to 120.

#### *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

## Independent Auditor's Report

# 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:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2009 and of their performance for the year ended on that date; and
  - (ii) 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 in pages 19 to 34 of the directors' report for the year ended 31 December 2009. 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 2009, complies with section 300A of the *Corporations Act 2001*.

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU

*Tom Imbesi*  
Tom Imbesi  
Partner  
Chartered Accountants

Melbourne, 31 March 2010

## Directors' Declaration

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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 consolidated entity; 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 consolidated entity, 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



Graeme Yeomans  
Chairman

Melbourne

Date: 31 March 2010

## Statement of Comprehensive Income For the year ended 31 December 2009

		Consolidated		Company	
	Note	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Continuing operations					
Revenue		229,933	279,256	219,920	240,371
Cost of goods sold		(174,987)	(171,945)	(168,126)	(169,349)
Other expenses					
Warehouse and distribution		(17,514)	(21,855)	(17,407)	(21,603)
Marketing and selling		(44,894)	(47,606)	(41,609)	(34,277)
Administration		(14,550)	(11,527)	(14,239)	(11,483)
Amortisation		(209)	(2,457)	(84)	(129)
Finance costs	10	(8,751)	(8,364)	(8,436)	(7,125)
Impairment and restructuring costs	7	(20,245)	(68,975)	(57,378)	(14,174)
(Loss)/profit before income tax	8	(51,217)	(53,473)	(87,359)	(17,769)
Income tax benefit/(expense)	9	9,553	11,929	9,019	363
(Loss)/profit for the period from continuing operations		(41,664)	(41,544)	(78,340)	(17,406)
Discontinued operations					
(Loss)/profit for the period from discontinued operations	6	(16,388)	(9,303)	(5,690)	3,676
(Loss)/profit for the year		(58,052)	(50,847)	(84,030)	(13,730)
Other comprehensive income					
Exchange differences arising on translation of foreign operations		(363)	(548)	(1)	8
Gain/(loss) on cash flow hedges transferred from/taken to equity		1,204	(3,039)	1,308	(3,039)
Gain/(loss) on equity settled benefits transferred from/taken to equity		12	170	7	-
Other Comprehensive income for the period (net of tax)		853	(3,417)	1,314	(3,031)
Total comprehensive income attributable to members of Funtastic		(57,199)	(54,264)	(82,716)	(16,761)
Earnings per share		Cents	Cents		
From continuing and discontinued operations:					
Basic (cents per share)	31	(25.0)	(30.7)		
Diluted (cents per share)	31	(25.0)	(30.7)		
From continuing operations:					
Basic (cents per share)	31	(17.9)	(25.1)		
Diluted (cents per share)	31	(17.9)	(25.1)		

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

# Statement of Financial Position

As at 31 December 2009

		Consolidated		Company	
		2009	2008	2009	2008
	Note	\$'000	\$'000	\$'000	\$'000
Current Assets					
Cash	37	2,191	5,769	1,196	3,440
Trade and other receivables	11	42,276	56,225	40,752	49,943
Inventories	12	31,018	55,982	30,794	43,501
Other	13	26,490	25,031	8,227	13,739
Current tax assets	14	187	2,109	-	1,097
Other financial assets	15	5,009	-	10,998	2,366
Total Current Assets		107,171	145,116	91,967	114,086
Non-Current Assets					
Property, plant and equipment	16	4,643	6,019	4,503	5,479
Investments	17	-	-	9,341	58,936
Goodwill	18	73,045	97,634	67,100	69,571
Other intangibles	19	1,015	676	552	626
Deferred tax assets	9	16,458	5,396	15,088	3,850
Other financial assets	20	1,619	-	1,619	-
Total Non-Current Assets		96,780	109,725	98,203	138,461
Total Assets		203,951	254,841	190,170	252,547
Current Liabilities					
Trade payables	22	10,973	22,571	10,739	20,770
Borrowings	23	6,901	23,463	6,901	13,442
Provisions	24	3,416	9,251	1,316	1,748
Deferred purchase consideration	25	8,268	2,261	8,268	2,261
Other	26	28,479	19,404	22,120	16,935
Other Financial Liabilities	27	597	11	597	1,402
Total Current Liabilities		58,634	76,961	49,941	56,558
Non-Current Liabilities					
Borrowings	23	55,532	49,370	55,532	49,370
Provisions	24	1,704	903	1,704	802
Deferred tax liabilities	9	8,977	9,083	7,011	4,899
Deferred purchase consideration	25	2,367	4,469	2,367	4,469
Other financial liabilities	27	-	2,294	-	2,294
Total Non-Current Liabilities		68,580	66,119	66,614	61,834
Total Liabilities		127,214	143,080	116,555	118,392
Net Assets		76,737	111,761	73,615	134,155
Equity					
Issued capital	28	159,377	137,202	159,377	137,202
Accumulated losses	29	(82,385)	(24,333)	(86,590)	(2,560)
Reserves	30	(255)	(1,108)	828	(486)
Total Equity		76,737	111,761	73,615	134,155

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

# Statement of Changes in Equity

For the year ended 31 December 2009

Consolidated	Fully Paid Ordinary Shares	Accumulated Losses	Currency Translation Reserve	Equity-settled Benefits	Cash Flow Hedging	Total
Balance at 1 January 2008	137,202	26,514	(171)	1,848	1,260	166,653
Loss for the year	-	(50,847)	-	-	-	(50,847)
Other Comprehensive Loss	-	-	(548)	(628)	(2,869)	(4,045)
Total Comprehensive Loss	-	(50,847)	(548)	(628)	(2,869)	(54,892)
Balance at 31 December 2008	137,202	(24,333)	(719)	1,220	(1,609)	111,761
Balance at 1 January 2009	137,202	(24,333)	(719)	1,220	(1,609)	111,761
Loss for the year	-	(58,052)	-	-	-	(58,052)
Other Comprehensive (Loss)/gain	-	-	(362)	11	1,204	853
Total Comprehensive Income	-	(58,052)	(362)	11	1,204	(57,199)
Share issues to NSR (HK) Ltd	1,400	-	-	-	-	1,400
Rights issue	20,775	-	-	-	-	20,775
Balance at 31 December 2009	159,377	(82,385)	(1,081)	1,231	(405)	76,737
Company	Fully Paid Ordinary Shares	Accumulated Losses	Currency Translation Reserve	Equity-settled Benefits	Cash Flow Hedging	Total
Balance at 1 January 2008	137,202	11,170	-	1,848	1,321	151,545
Loss for the year	-	(13,730)	-	-	-	(13,730)
Other Comprehensive (Loss)	-	-	-	(628)	(3,027)	(3,659)
Total Comprehensive Loss	-	(13,730)	-	(628)	(3,027)	(17,389)
Balance at 31 December 2008	137,202	(2,560)	-	1,220	(1,706)	134,156
Balance at 1 January 2009	137,202	(2,560)	-	1,220	(1,706)	134,156
Loss for the year	-	(84,030)	-	-	-	(84,030)
Other Comprehensive (Loss)/gain	-	-	(1)	11	1,304	1,314
Total Comprehensive Income	-	(84,030)	(1)	11	1,304	(82,716)
Share issues to NSR (HK) Ltd	1,400	-	-	-	-	1,400
Rights issue	20,775	-	-	-	-	20,775
Balance at 31 December 2009	159,377	(86,590)	(1)	1,231	(402)	73,615

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

# Statement of Cash flow

For the year ended 31 December 2009

		Consolidated		Company	
		2009	2008	2009	2008
	Note	\$'000	\$'000	\$'000	\$'000
<b>Cash Flows from Operating Activities</b>					
Receipts from customers (inclusive of GST)		312,808	416,362	286,729	345,624
Payments to suppliers and employees (inclusive of GST)		(323,988)	(399,643)	(301,237)	(332,163)
		(11,180)	16,719	(14,508)	13,461
Income taxes received/(paid)		1,802	3,872	1,835	3,751
Interest and other costs of finance paid		(8,363)	(8,379)	(8,048)	(7,140)
Net Cash (Outflow)/Inflow from Operating Activities	37	(17,741)	12,212	(20,721)	10,072
<b>Cash Flows from Investing Activities</b>					
Interest received		54	416	51	408
Payments for acquisition of businesses		(2,365)	(2,751)	(2,365)	(2,274)
Payments for property, plant and equipment		(3,603)	(2,155)	(3,544)	(2,077)
Proceeds from sale of property, plant and equipment		16	90	16	90
Proceeds from sale of business		9,687	10,178	3,924	10,178
Net Cash Inflow/(outflow) from Investing Activities		3,789	5,778	(1,918)	6,325
<b>Cash Flows from Financing Activities</b>					
Proceeds from issue of shares		22,342	-	22,342	-
Repayment of borrowings		(10,400)	(14,947)	(379)	-
Share issue transaction costs		(1,568)	-	(1,568)	(13,476)
Net Cash Inflow / (outflow) from Financing Activities		10,374	(14,947)	20,395	(13,476)
Net (Decrease) / increase in Cash Held		(3,578)	3,043	(2,244)	2,921
Cash and cash equivalents at the beginning of the year		5,769	2,726	3,440	519
Cash and cash equivalents at the end of the year	37	2,191	5,769	1,196	3,440

The above cash flow statement 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. The adoption of these new and revised Standards and Interpretations have resulted in changes to the Group's presentation of the financial statements. Previously, in addition to the statement of financial position (formerly termed the 'balance sheet'), the income statement and the statement of cash flows (formerly termed the 'cash flow statement'), the Group presented a statement of recognised income and expenses. As a consequence of the adoption of AASB 101 Presentation of Financial Statements (2007) and its associated amending standards, the Group no longer presents a statement of recognised income and expenses, but presents in addition to the statements listed above, a statement of changes in equity and a statement of comprehensive income. There were no relevant accounting policy changes during the year ended 31 December 2009.

The adoption of AASB8 *Operating Segments* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 8* has resulted in amended segment disclosures as set out in Note 4. In addition, the group has early adopted AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*, which only requires disclosure of total segment assets for each reportable segment if such amounts are regularly provided to the chief operating decision maker.

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

Standard / Interpretation	Effective for annual reporting period beginning on or after	Expect to be initially applied in financial year ending
AASB 3 Business Combinations (2008), AASB 127 Consolidated and Separate Financial Statements (2008)	Business combinations occurring after the beginning of annual reporting period beginning 1 July 2009	31 December 2010
AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013	31 December 2013
AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 July 2009	31 December 2010
AASB 2008-8 Amendments to Australian Accounting Standards - Eligible Hedged Items	1 July 2009	31 December 2010
AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Process	1 July 2009	31 December 2010
AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process	1 January 2010	31 December 2010
AASB 2009-7 Amendments to Australian Accounting Standards	1 July 2009	31 December 2010
AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-Settled Share-based Payment Transactions	1 January 2010	31 December 2010
AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issues	1 February 2010	31 December 2011

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 31 March 2010.

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

## Basis of preparation

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.

## (b) Income Tax

## (i) Current tax

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

## (ii) Deferred tax

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

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

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

Deferred tax liabilities and assets are not recognised for temporary differences between

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

### (iii) *Current and deferred tax for the period*

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

### (iv) *Tax Consolidation*

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

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in Note 9 to the financial statements.

## (c) *Foreign currency translation*

### (i) *Functional and presentation currency*

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

### (ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in

foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

### (iii) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a 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 3<sup>rd</sup> 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.

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

allowance is recognised in the income statement.

#### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of stock on the basis of weighted average costs. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

#### (i) Trade payables

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

#### (j) Goods and services tax

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

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

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

##### (ii) *Defined contribution plans*

Contributions to defined contribution superannuation plans are expensed when incurred.

##### (iii) *Share-based payments*

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

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

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

The fair value of the options and performance share rights granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-



market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

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

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

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

#### (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.

#### (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 forward contracts comprising foreign exchange forward contracts and options; 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.

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.

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



### (i) *Impairment of financial assets*

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

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

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

### (u) *Financial instruments issued by the 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 38.

#### § *Other financial liabilities*

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

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

### (v) *Provisions*

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

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

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

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct

expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity

### (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.

(y) Non-current assets held for sale

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

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

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

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

In the application of the group's accounting policies, which are described in Note 2, 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 judgments 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 18 for details of these assumptions.

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

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

**§ Settlement of licence audits**

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

## NOTE 4: Segment information

The Group has adopted AASB 8 *Operating Segments* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 8* with effect from 1 January 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (AASB 114 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of AASB 8, the identification of the Group's reportable segments has changed.

Under AASB 114 *Segment Reporting*, Funtastic Limited reported operations in one business and one geographical segment as Funtastic Limited is a wholesaler and distributor operating predominantly in Australia.

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

- Toys and Lifestyle Merchandise
- Entertainment
- Other
- Softgoods, Toys New Zealand, Publishing (Discontinued)

The Toys and Lifestyle Merchandise reportable segment distributes licensed toys, sporting equipment, nursery equipment, educational toys and homewares. The Entertainment reportable segment distributes licensed DVD and interactive merchandise. The Other reportable segment incorporates all other trading operations.

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

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

Information regarding these segments is presented below. Amounts reported for the prior period have been restated to conform to the requirements of AASB 8. The accounting policies of the new reportable segments are the same as the Group's accounting policies.

# Notes to the Financial Statements

31 December 2009

## NOTE 4: Segment information (continued)

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

	Note	Revenue		Segment profit	
		2009	2008	2009	2008
		\$'000	\$'000	\$'000	\$'000
Continuing operations					
Toys and Lifestyle Merchandise		135,495	179,168	4,140	36,863
Entertainment		75,455	72,016	10,987	17,953
Other		17,297	27,719	572	6,770
		228,247	278,903	15,699	61,586
Central Administration		-	-	(37,711)	(35,263)
Finance Costs		-	-	(8,751)	(8,364)
Amortisation		-	-	(209)	(2,457)
Investment Revenue		1,686	353	-	-
Impairment & restructuring	7	-	-	(20,245)	(68,975)
Continuing segment revenue and (loss) before tax		229,933	279,256	(51,217)	(53,473)
Discontinued operations					
Softgoods		39,020	70,457	(5,891)	(11,133)
Toys New Zealand		6,009	16,788	375	(1,718)
Publishing		(2)	1,716	(12)	(2,031)
Remeasurement of Softgoods to fair value less costs to sell	6	-	-	(2,133)	-
Remeasurement of Toys New Zealand to fair value less costs to sell	6	-	-	(10,381)	-
Profit on disposal of Publishing	6	-	-	-	4,558
Discontinued segment revenue and (loss)/profit for the period		45,027	88,961	(18,042)	(10,324)
Consolidated segment revenue and (loss) before tax		274,960	368,217	(69,259)	(63,797)
Income tax benefit (continuing and discontinued operations)		-	-	11,207	12,950
Consolidated segment revenue and (loss) after tax for the period		274,960	368,217	(58,052)	(50,847)

#### NOTE 4: Segment information (continued)

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

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

#### Geographical Information

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

	Revenue from External Customers	
	2009	2008
	\$'000	\$'000
Australia	258,185	345,025
New Zealand	10,592	17,740
Hong Kong	6,183	14
USA	-	5,438
	274,960	368,217

#### Information about major customers

Included in revenues of Toys and Lifestyle Merchandise of \$135,495 thousand, are revenues of approximately \$90,983 thousand which arose from sales to the Group's 4 largest customers.

Included in revenues of Entertainment and DVD of \$75,455 thousand are revenues of approximately \$40,305 thousand which arose from sales to the Group's 4 largest customers.

#### NOTE 5: Revenue

	Note	Consolidated		Company	
		2009	2008	2009	2008
		\$'000	\$'000	\$'000	\$'000
Revenue from the sale of goods					
Gross revenue		257,037	302,681	246,640	266,515
Less settlement discounts and rebates		(28,790)	(31,555)	(28,432)	(28,317)
		228,247	271,126	218,208	238,198
Interest from bank deposits		10	380	26	213
Commissions received		106	305	106	305
Other		1,570	7,445	1,580	1,655
		1,686	8,130	1,712	2,173
Continuing Operations		229,933	279,256	219,920	240,371
Discontinued Operations	6	45,027	88,961	39,020	71,576
		274,960	368,217	258,940	311,947



# NOTE 6: Discontinued operations

## Disposal of the Toys New Zealand business

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

A binding sale agreement for the New Zealand Toys business was signed on 14 July 2009 and was completed by 31 July 2009. The Group has recognised a loss on divestment of \$10,381,000. The Toys New Zealand business has been classified and accounted for at 31 December 2009 as a discontinued operation.

The results of the Toys New Zealand business, which have been included in the comprehensive statement of income, are presented below:

	Year ended December 2009 \$'000	Year ended December 2008 \$'000
Trading profit of Toys New Zealand business for the period after tax	262	1,424
(Loss) on divestment	(10,381)	-
(Loss)/profit for the period from discontinued operations after tax	(10,119)	1,424

The following were the trading results of the Toys New Zealand business for the period:

	Year ended December 2009 \$'000	Year ended December 2008 \$'000
Revenue	6,009	18,169
Operating expenses	(5,634)	(16,761)
Profit before income tax	375	1,408
Income tax (expense) / benefit	(113)	16
Profit after income tax	262	1,424

## Disposal of the Softgoods business

On 26 June 2009, the Board of Directors announced a plan to dispose of the Group's Softgoods business, which involves the distribution of licensed footwear, manchester and apparel. The disposal is consistent with the Group's long-term strategy as explained above.

Binding sale agreements in relation to individual operational units that make up the Softgoods business was completed by 31 August 2009. The Group has recognised a loss on divestment of \$2,133,000. The Softgoods business has been accounted for at 31 December 2009 as a discontinued operation.



# NOTE 6: Discontinued operations (continued)

The results of the Softgoods business, which has been included in the consolidated statement of income are presented below:

	Year ended December 2009 \$'000	Year ended December 2008 \$'000
Trading (loss)/profit of Softgoods business for the period after tax	(4,120)	546
(Loss) on divestment	(2,133)	-
(Loss)/profit for the period from discontinued operations after tax	(6,253)	546

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

	Year ended December 2009 \$'000	Year ended December 2008 \$'000
Revenue	39,020	74,258
Operating expenses	(44,911)	(73,478)
(Loss)/profit before income tax	(5,891)	780
Income tax benefit/(expense)	1,771	(234)
(Loss)/profit after income tax	(4,120)	546

# Disposal of Publishing business

In the corresponding period of 2008, Funtastic Limited sold its Publishing business. Amounts in respect of the sale, which are included in the statement of consolidated income are shown here for comparative purposes.

	Year ended December 2009 \$'000	Year ended December 2008 \$'000
(Loss) of publishing business for the period after tax	(16)	(1,079)
Gain on divestment	-	2,687
(Loss)/Profit for the period from discontinued operations after tax	(16)	1,608

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

	Year ended December 2009 \$'000	Year ended December 2008 \$'000
Revenue	(2)	1,716
Operating expenses	(10)	(3,546)
(Loss) before income tax	(12)	(1,830)
Income tax (expense)/ benefit	(4)	751
(Loss) after income tax	(16)	(1,079)

## NOTE 6: Discontinued operations (continued)

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

	Year ended December 2009 \$'000	Year ended December 2008 \$'000
Total consideration	-	10,178
Less Net assets disposed of	-	(4,178)
Less Costs of disposal	-	(1,442)
Gain on disposal before tax	-	4,558

## Analysis of profit for the year from discontinued operations

The combined results of the discontinued operations (i.e. Toys –New Zealand and Softgoods) included in the statement of comprehensive income are set out below. The comparative profit and cash flows from discontinued operations have been represented to include those operations classified as discontinued in the current period.

	Note	Consolidated		Parent	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Profit for the year from discontinued operations					
Revenue		44,940	88,248	38,906	71,561
Other income		87	713	114	15
	5	45,027	88,961	39,020	71,576
Expenses					
Warehouse and distribution		(41,174)	(82,783)	(36,815)	(55,665)
Marketing and selling		(8,861)	(15,239)	(7,767)	(1,675)
Administration		(520)	(1,263)	(339)	(10,396)
		(50,555)	(99,285)	(44,921)	(67,736)
(Loss)/Profit before tax		(5,528)	(10,324)	(5,901)	3,840
Attributable income tax benefit / (expense)		1,654	1,021	2,387	(164)
(Loss)/Profit after income tax		(3,874)	(9,303)	(3,514)	3,676
(Loss) on divestment		(12,514)	-	(2,176)	-
(Loss)/Profit for the year from discontinued operations		(16,388)	(9,303)	(5,690)	3,676
Cash flows from discontinued operations					
Net cash (outflow)/ inflow from operating activities		(3,874)	(9,303)	(3,963)	3,676
Net cash inflow/(outflow) from investing activities		7,571	-	(123)	-
Net cash (outflow)/inflow from financing activities		(10,021)	-	-	-
Net cash flows		(6,324)	(9,303)	(4,086)	3,676

# NOTE 7: 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 2009:

Continuing Operations	Consolidated		Company	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
ABC Group related:				
Trade receivable write off	-	11,348	-	-
Write down intangible assets	-	36,000	-	-
Provision for restructure costs – Australia & USA	107	7,453	107	-
Total ABC Group related	107	54,801	107	-
Goodwill impairment:				
Goodwill impairment – Educational Toys & furniture	14,689	-	-	-
Goodwill impairment – Nursery	2,839	-	2,839	-
Total Goodwill impairment	17,528	-	2,839	-
Investment in controlled entities	-	-	51,877	-
Other:				
Impairment of material contracts	-	13,700	-	13,700
Costs associated with proposed takeover	-	474	-	474
Impairment of prepaid product costs - Nursery	313	-	313	-
Other Corporate restructuring costs	2,297	-	2,242	-
Total Other	2,610	14,174	2,555	14,174
Total impairment and restructuring costs items	20,245	68,975	57,378	14,174

## Impairment – Educational toys and furniture

During the year, as a result of the ongoing group restructure that was announced in 2008, the Group transferred the management and operations of the Educational toys and furniture division to its Toys and Lifestyle Merchandise business. Additionally, in accordance with Group accounting policy, the Group assessed the goodwill attached to the business for impairment. The recoverable amount of the Educational toys and furniture division was based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five year period and using a discount rate of 21.2% which represents the estimated weighted average cost of capital for the division as determined. Cash flow projections during and beyond the budget period were based on normalised gross margins and an average growth rate of 0%. This resulted in the recognition of goodwill impairment loss for the Educational toys and furniture business of \$14,689,000

## Impairment - Nursery

During the year, as a result of the ongoing group restructure that was announced in 2008, the Group transferred the management and operations of the Nursery division to its Toys and Lifestyle Merchandise business. Additionally, in accordance with Group accounting policy, the Group assessed the goodwill attached to the business for impairment. The recoverable amount of the Nursery division was based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five year period and using a discount rate of 21.2% which represents the estimated weighted average cost of capital for the division as determined. Cash flow projections during and beyond the budget period were based on normalised gross margins and an average growth rate of 0%. This resulted in the recognition of goodwill impairment loss for the Nursery business of \$2,839,000 and an impairment of prepaid product costs of the nursery Cash Generating Unit (CGU) of \$313,000.

## NOTE 7: Impairment and Restructuring Costs (continued)

## 2009

The Group performed impairment testing of goodwill at 31 December 2009. As a result of this testing, the carrying values of the Judius and Nursery cash generating units, were determined to be higher than the recoverable amounts. Consequently the following impairment losses were recognised: Judius \$14,689,000 (2008: Nil) and Nursery \$2,839,000 (2008: Nil). The impairment loss was allocated fully to goodwill and is included in Impairment and restructuring costs.

The company transferred the majority of the Judius assets and liabilities to the parent company during the year and the company disposed off the Planet Fun (NZ Toys) business in July 2009. Following a review of recoverability of the investments in Judius and Planet Fun, management concluded that it was appropriate to write off the investments.

## 2008

As a consequence of the 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 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.

# Notes to the Financial Statements

31 December 2009

## NOTE 8: Profit for the year

	Continuing		Consolidated Discontinued		Total		Continuing		Company Discontinued		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	\$'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	7,415	7,598	-	-	7,415	7,598	7,100	6,360	-	-	7,100	6,360
Interest on deferred purchase consideration	1,188	668	-	-	1,188	668	1,188	668	-	-	1,188	668
	8,603	8,266	-	-	8,603	8,266	8,288	7,028	-	-	8,288	7,028
Inventory:												
Write-down of inventory to net realisable value	4,176	4,090	-	-	4,176	4,090	4,176	4,059	-	-	4,176	4,059
Depreciation	2,505	3,015	111	-	2,616	3,015	2,208	2,774	96	-	2,304	2,774
(Loss)/gain on disposal of plant and equipment	206	(25)	1,634	-	1,840	(25)	206	(19)	1,634	-	1,840	(19)
Amortisation of Intangibles	209	2,457	-	-	209	2,457	74	129	-	-	74	129
Operating lease rental expense:												
Rental expenses relating to operating leases	3,617	5,112	907	287	4,524	5,399	3,418	4,030	886	287	4,304	4,317

# Notes to the Financial Statements

31 December 2009

## NOTE 8: Profit for the year (continued)

	Consolidated						Company					
	Continuing		Discontinued		Total		Continuing		Discontinued		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Management services provided by controlled entities	-	-	-	-	-	-	-	1,223	-	-	-	1,223
Employee benefit expense:												
Post employment benefits:												
Defined contribution plans	1,914	2,756	282	18	2,196	2,774	1,858	2,427	281	18	2,139	2,445
Share-based payments – employees												
Equity settled share-based payments	11	(598)	-	(29)	11	(627)	11	(598)	-	(29)	11	(627)
Termination benefits	823	695	492	-	1,315	695	823	-	317	-	1,140	-
Other employee benefits	27,418	39,932	3,692	766	31,110	40,698	25,964	34,458	3,309	765	29,273	35,223
	30,166	42,785	4,466	755	34,632	43,540	28,656	36,287	3,907	754	32,563	37,041

## NOTE 9: Income tax

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
(a) Income tax expense				
Current tax	-	(309)	-	746
Deferred tax	(11,207)	(12,641)	(11,406)	(945)
Total tax (benefit)/expense	(11,207)	(12,950)	(11,406)	(199)
Attributable to:				
Continuing operations	(9,553)	(11,929)	(9,019)	(363)
Discontinued operations	(1,654)	(1,021)	(2,387)	164
	(11,207)	(12,950)	(11,406)	(199)
(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	(51,217)	(66,178)	(87,359)	(16,308)
Operating (loss)/profit before income tax expense – discontinued	(18,042)	2,382	(8,077)	2,382
	(69,259)	(63,796)	(95,436)	(13,926)
Tax (credit)/expense at the Australian tax rate of 30% (2008: 30%)	(20,778)	(19,138)	(28,631)	(4,178)
Tax effect of amounts which are not deductible/(taxable) in calculating				
Investment in controlled entities write off	-	-	9,419	-
Effect of revenue that is exempt from taxation	(27)	(188)	(27)	(188)
Expenses that are not deductible in determining taxable loss	9,456	4,346	7,833	4,033
Foreign Loss where deferred tax asset not recognised	-	1,067	-	-
Other	142	963	-	134
Income tax (benefit)/expense	(11,207)	(12,950)	(11,406)	(199)

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 2009

## NOTE 9: Income tax (continued)

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
(c) Amounts recognised directly in equity				
Deferred Tax Asset/(Liability):				
Financial instruments treated as cash flow hedges	(602)	1,230	(559)	1,300
(d) Current tax balances				
Current tax assets and liabilities				
Income tax receivable from tax office	-	2,109	-	1,097
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	7,657	848	7,657	848
Temporary differences	8,801	4,548	7,431	3,002
	16,458	5,396	15,088	3,850
Deferred tax liability comprises:				
Temporary differences	8,977	9,083	7,011	4,899
Net Deferred tax asset	7,481	(3,687)	8,077	(1,049)
Deferred Tax Assets/(Liabilities) arise from the following:				
Amounts charged to income				
Provisions – receivables	489	120	489	102
Provisions – employee benefits	526	932	526	847
Intangibles – Licenses, distribution agreements and supplier relationships	-	(15)	-	-
Property, plant and equipment	152	(52)	152	(37)
Accruals	1,276	136	1,276	128
Prepaid royalties	(7,800)	(7,674)	(6,736)	(3,315)
Inventory	3,599	593	3,599	593
Tax Loss <sup>(i)</sup>	7,657	848	7,657	848
Other provisions	375	1,451	375	-
Foreign Exchange	(575)	(798)	(575)	(1,044)
Cash flow hedges	(602)	793	(559)	734
Other	2,384	(21)	1,873	95
	7,481	(3,687)	8,077	(1,049)

## NOTE 9: Income tax (continued)

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Movements:				
Opening balance as at 1 January	(3,687)	(17,720)	(1,049)	(4,195)
Charged/(credited) to the income statement	11,207	12,641	11,406	945
(Credited)/charged to equity	(602)	1,230	(559)	1,300
Acquisition of business	-	-	-	592
Acquisition of subsidiary	528	-	528	-
Tax Group Loss recognised in head entity	-	-	-	309
Other	35	162	(2,249)	-
Closing balance as at 31 December	7,481	(3,687)	8,077	(1,049)

## 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

31 December 2009

## NOTE 10: Finance costs

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Interest on bank overdrafts and loans	7,415	7,598	7,100	6,360
Interest on deferred purchase consideration	1,188	668	1,188	668
Total Interest expense	8,603	8,266	8,288	7,028
Fair value losses on interest rate swaps designated as cash flow hedges transferred from equity	148	98	148	98
	8,751	8,364	8,436	7,126
Attributable to:				
Continuing operations	8,751	8,364	8,436	7,126
Discontinued operations	-	-	-	-
	8,751	8,364	8,436	7,126

## NOTE 11: Current assets – Trade and other receivables

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Trade receivables <sup>(1)</sup>	54,630	66,092	53,254	59,486
Allowance for doubtful debts	(1,700)	(372)	(1,629)	(345)
Allowance for credit notes, rebates and settlement discounts	(11,257)	(9,919)	(11,155)	(9,538)
	41,673	55,801	40,470	49,603
Other receivables	603	424	282	340
	42,276	56,225	40,752	49,943

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

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

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

Included in the group's trade receivable balance are debtors with a carrying amount of \$6,571,786 (2008:\$7,090,000) 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 number of days past due of these receivables is 38 days (2008: 78 days).

Included in the company's trade receivable balance are debtors with a carrying amount of \$6,590,336 (2008:\$4,311,000) 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 number of days past due of these receivables is 37 days (2008: 92 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 \$389,565 (2008: \$536,000) which have been placed under liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivable and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.

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

	Consolidated			Company		
	Doubtful debts	Rebates, credit notes & settlement discount	Total	Doubtful debts	Rebates, credit notes & settlement discount	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2009						
Balance at beginning of year	(372)	(9,919)	(10,291)	(345)	(9,538)	(9,883)
Utilised	-	9,208	9,208	-	9,106	9,106
Provisions raised	(1,328)	(10,546)	(11,874)	(1,284)	(10,723)	(12,007)
Balance at end of the year	(1,700)	(11,257)	(12,957)	(1,629)	(11,155)	(12,784)
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)

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

# Notes to the Financial Statements

31 December 2009

## NOTE 12: Current assets – Inventories

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Finished goods – at cost	17,068	44,395	17,008	36,207
Finished goods – at net realisable value	13,950	11,587	13,786	7,294
	31,018	55,982	30,794	43,501

## NOTE 13: Current assets – Other

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Prepaid royalties and other prepayments	26,490	25,031	8,227	13,739

## NOTE 14: Current assets – Tax assets

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Tax receivable	187	2,109	-	1,097

## NOTE 15: Current assets - Other financial assets

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Non Interest bearing loans – controlled entities	-	-	-	588
Consideration receivable on sale of business	4,930	-	4,930	-
Interest bearing loans – controlled entities	-	-	5,989	1,778
Other	79	-	79	-
Current Other financial assets	5,009	-	10,998	2,366

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

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Plant and equipment – at cost	12,895	17,322	10,590	14,829
Less: accumulated depreciation	(8,536)	(12,165)	(6,267)	(10,062)
	4,359	5,157	4,323	4,767
Leasehold improvements	758	1,514	554	1,264
Less: accumulated amortisation	(474)	(652)	(375)	(552)
	284	862	180	712
	4,643	6,019	4,503	5,479

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

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

## Reconciliations

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

Consolidated	Plant and Equipment \$'000	Leasehold Improvements \$'000	Total \$'000
2009			
Cost			
Opening Balance	17,322	1,514	18,836
Additions	3,516	60	3,576
Additions on acquisition	877	-	877
Disposals	(3,911)	(19)	(3,930)
Cost of assets impaired	(4,765)	(770)	(5,535)
Net foreign exchange difference	(144)	(27)	(171)
Closing Balance	12,895	758	13,653
Accumulated Deprecation			
Opening Balance	(12,165)	(652)	(12,817)
Additions on acquisition	(849)	-	(849)
Disposals	2,948	5	2,953
Depreciation/amortisation	(2,390)	(226)	(2,616)
Accumulated depreciation on assets impaired	3,824	403	4,227
Net foreign exchange difference	97	(4)	93
Closing Balance	(8,536)	(474)	(9,010)
Written Down Value			
Opening Balance	5,157	862	6,019
Closing Balance	4,359	284	4,643
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



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

Company	Plant and Equipment \$'000	Leasehold Improvements \$'000	Total \$'000
2009			
Cost			
Opening Balance	14,829	1,264	16,093
Additions	3,162	60	3,222
Disposals	(2,860)	(4)	(2,864)
Cost of assets impaired	(4,765)	(770)	(5,535)
Transfers	224	4	228
Closing Balance	10,590	554	11,144
Accumulated Deprecation			
Opening Balance	(10,062)	(552)	(10,614)
Disposals	2,112	1	2,113
Depreciation/amortisation	(2,078)	(226)	(2,304)
Accumulated depreciation on assets impaired	3,761	402	4,163
Closing Balance	(6,267)	(375)	(6,642)
Written Down Value			
Opening Balance	4,767	712	5,479
Closing Balance	4,323	180	4,503
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 Deprecation			
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

## NOTE 17: Non-current assets – Investments

	Note	Consolidated		Company	
		2009	2008	2009	2008
		\$'000	\$'000	\$'000	\$'000
Investment in controlled entities	35	-	-	9,341	58,936

## NOTE 18: Non-current assets – Goodwill

	Note	Consolidated		Company	
		2009	2008	2009	2008
		\$'000	\$'000	\$'000	\$'000
Gross carrying amount					
Balance at the beginning of financial year		97,634	112,481	69,571	56,274
Additional goodwill recognised from business combinations occurring during the year	36	5,943	-	-	-
Additional amounts recognised from past business combinations – earnout obligations		6,373	-	6,373	-
Effects of foreign currency exchange differences		-	(865)	-	-
Derecognised on disposal of a subsidiary		(19,377)	-	(6,003)	-
Purchase of business on restructure		-	-	-	26,344
Impairment losses for the year		(17,528)	(14,393)	(2,839)	(13,047)
Other		-	411	-	-
Balance at the end of financial year		73,045	97,634	67,100	69,571
Net book value					
Balance at the beginning of financial year		97,634	112,481	69,571	56,274
Balance at the end of financial year		73,045	97,634	67,100	69,571
Impairment					

## 1. Educational toys and furniture

During the year, as a result of the ongoing group restructure that was announced in 2008, the Group transferred the management and operations of the Educational toys and furniture division to its Toys and Lifestyle Merchandise business. Additionally in accordance with the Group accounting policy the Group assessed the goodwill attached to the business for impairment. The recoverable amount of the Educational toys and furniture division was based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five year period and using a discount rate of 21.2% which represents the estimated weighted average cost of capital for the division as determined. Cash flow projections during and beyond the budget period were based on normalised gross margins and an average growth rate of 0%. This resulted in the recognition of goodwill impairment loss for the Educational toys and furniture business of \$14,689,000 (2008: Nil). This impairment loss is included in impairment and restructuring costs for continuing operations in the statement of comprehensive income.

## NOTE 18 Non-current assets – Goodwill (continued)

### 2. Nursery

During the year, as a result of the ongoing group restructure that was announced in 2008, the Group transferred the management and operations of the Nursery division to its Toys and Lifestyle Merchandise business. Additionally in accordance with the Group accounting policy the Group assessed the goodwill attached to the business for impairment. The recoverable amount of the Nursery division was based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five year period and using a discount rate of 21.2% which represents the estimated weighted average cost of capital for the division as determined. Cash flow projections during and beyond the budget period were based on normalised gross margins and an average growth rate of 0%. This resulted in the recognition of goodwill impairment loss for the Nursery business of \$2,839,000 (2008: Nil) and an impairment of prepaid product costs of the nursery Cash Generating Unit (CGU) of \$313,000. The total impairment loss of \$3,152,000 (2008: Nil) is included in impairment and restructuring costs for continuing operations in the statement of comprehensive income.

### Allocation of goodwill to cash generating units

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

	Consolidated		Company	
	2009	2008	2009	2008
Cash generating unit	\$'000	\$'000	\$'000	\$'000
Toys & Lifestyle Merchandise	42,694	49,072	36,749	34,383
Entertainment	30,351	26,346	30,351	26,346
Softgoods (Discontinued)	-	8,842	-	8,842
Toys – New Zealand (Discontinued)	-	13,374	-	-
Total	73,045	97,634	67,100	69,571

As part of management's restructure during the year, the Hardgoods and Educational toys and furniture CGUs are now part of the Toys & Lifestyle Merchandise CGU. The DVD and theatrical distribution CGU was renamed Entertainment in 2009. Goodwill associated with the recently acquired subsidiary NSR (HK) Limited is included in the Toys & Lifestyle Merchandise CGU.

### 1. Toys & Lifestyle Merchandise (TLM)

The recoverable amount of the TLM CGU including goodwill associated with the recently acquired subsidiary NSR (HK) Limited is based on a value in use calculation which uses cash flow projections based on financial budgets approved by management, covering a five year period and using a discount rate of 21.2% (2008: 16.50%) which represents the weighted average cost of capital ("WACC") for the CGU.

Cash flow projections during the budget period are based on normalised sales and gross margins by the CGU and an average growth rate in sales of 0.0% (2008: 0.03%). Cash flows beyond the five year period have been extrapolated using a growth rate of 0.0%, which represents a conservative estimate of long term growth in the business and is significantly lower than the average of the historical consumer price index published by the Reserve Bank of Australia. The growth rates used in the model do not exceed the long term average growth rate for the market in which the CGU's business operates.

The TLM CGU includes other intangibles of \$1,015,000 (2008:\$676,000). These are brand names, licenses distribution agreements and supplier relationships.

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.

# NOTE 18 Non-current assets – Goodwill (continued)

## 2. Entertainment

The recoverable amount of the Entertainment 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 21.2% (2008: 16.7%) 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 0.0% (2008: 0.6%). Cash flows beyond the five year period have been extrapolated using a growth rate of 0.0%, which represents a conservative estimate of long term growth in the business and is significantly lower than the average of the historical consumer price index published by the Reserve Bank of Australia. The growth rates used in the model do not exceed the long term average growth rate for the market in which the CGU's business operates.

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

### Key Assumptions

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

Weighted Average Cost of Capital	Based on models developed externally, risk-adjusted and based on the CGU's cash flows.
Budgeted Gross Margin	Based on past history and management experience.
Sales Growth	Based on management future expectation taking into account current economic conditions.

# NOTE 19: Non-current assets – Other intangibles

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Brand Names <sup>(i)</sup>	1,015	552	552	552
Licenses, distribution agreements & supplier relationships <sup>(ii)</sup>	48,500	48,500	1,216	257
Less: Accumulated amortisation and impairment <sup>(iii) (iv)</sup>	(48,500)	(48,376)	(1,216)	(184)
	1,015	676	552	625

## NOTE 19: Non-current assets – Other intangibles (continued)

	Consolidated			Company		
	Brand Names	Licenses, distribution agreements and supplier relationships	Total	Brand Names	Licenses, distribution agreements and supplier relationships	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross Carrying Amount						
Balance at 1 January 2008	552	48,500	49,052	552	1,216	1,768
Balance as at 31 December 2008	552	48,500	49,052	552	1,216	1,768
Balance at 1 January 2009	552	48,500	49,052	552	1,216	1,768
Additions <sup>(v)</sup>	463	-	463	-	-	-
Balance at 31 December 2009	1,015	48,500	49,515	552	1,216	1,768
Accumulated amortisation and impairment						
Balance at 1 January 2008	-	(9,919)	(9,919)	-	(1,013)	(1,013)
Amortisation expense <sup>(iii)</sup>	-	(2,457)	(2,457)	-	(129)	(129)
Impairment Losses charged to profit or loss <sup>(iv)</sup>	-	(36,000)	(36,000)	-	-	-
Balance at 31 December 2008	-	(48,376)	(48,376)	-	(1,142)	(1,142)
Balance at 1 January 2009	-	(48,376)	(48,376)	-	(1,142)	(1,142)
Amortisation expense <sup>(iii)</sup>	-	(124)	(124)	-	(74)	(74)
Impairment Losses charged to profit or loss <sup>(iv)</sup>	-	-	-	-	-	-
Balance at 31 December 2009	-	(48,500)	(48,500)	-	(1,216)	(1,216)
Net book value						
As at 31 December 2008	552	124	676	552	74	625
As at 31 December 2009	1,015	-	1,015	552	-	552

(i) Brands acquired and separately identified as part of the acquisition of Mike & Jack confectionery in May 2006. The group intends to continue use of the brands for an indefinite period and are therefore not amortised but are subject to an annual test for impairment. The key assumptions used in the value in use calculations for Brand names are as follows: Average Sales Growth Rate 0.0% (2008: 0.3%) and the Discount Rate 21.2% (2008: 16.5%).

(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 \$124,000 (2008: \$2,457,000), with respect to the licenses, distribution agreements and supplier relationships is included in amortisation expense in the statement of comprehensive income.

## NOTE 19: Non-current assets – Other intangibles (continued)

- (iv) The EJA agreement was a long term customer agreement with ABC Learning Centres Limited. In 2008, following the administration & receivership of ABC Learning Centres, an Impairment loss of \$36,000,000 was recognised in 2008 (Note 6).
- (v) Brands acquired and separately identified as part of the acquisition of NSR (HK) Limited in August 2009. The group intends to continue use of the brands for an indefinite period and are therefore not amortised but are subject to an annual test for impairment. The key assumptions used in the value in use calculations for Brand names are as follows: Average Sales Growth Rate 0.0% (2008: 0.3%) and the Discount Rate 21.2% (2008: 16.5%).

## NOTE 20: Non-current assets – Other

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Held to maturity carried at amortised cost:				
Held to maturity asset	1,619	-	1,619	-

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

## NOTE 21: Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in note 23 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 22: Current liabilities – Trade payables

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Trade payables <sup>(1)</sup>	10,973	22,571	10,739	20,770

- (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.

## NOTE 23: Borrowings

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Secured – at amortised cost				
Current				
Trade finance	6,901	13,000	6,901	13,000
Bill finance	-	10,021	-	-
Debtors finance	-	442	-	442
Total Current	6,901	23,463	6,901	13,442
Non-current				
Bill finance	35,965	49,370	35,965	49,370
Debtors finance	19,567	-	19,567	-
Total Non-current	55,532	49,370	55,532	49,370
Current borrowings	6,901	23,463	6,901	13,442
Non-current borrowings	55,532	49,370	55,532	49,370
	62,433	72,833	62,433	62,812

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.

## Financing Arrangements

The Commercial Bill, trade finance, and debtor finance facilities all expire 30 June 2011.

The current interest rates are 13.73% on the National Debtors Finance Facility, 7.65% on the trade finance facility and 7.70% on the Commercial Bill Facility (2008: 6.22%, 7.18% and 5.00% respectively).

## Financing Arrangements – Controlled Entities

*Planet Fun Pty Limited.*

The Commercial Bill Facility of \$Nil (2008: \$10,021,388) was repaid in full during the year following the sale of the toys New Zealand business unit. The proceeds from the sale and part of the proceeds from the group capital raising were applied to the outstanding debt, which was repaid in full by 31 December 2009. The average interest rate during the period was 6.21% (2008: 8.26%).

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.



## NOTE 24: Provisions

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Current				
Employee benefits	1,161	2,060	1,145	1,748
Restructuring provisions	2,255	7,191	171	-
Total Current	3,416	9,251	1,316	1,748
Non-current				
Lease incentive	1,251	99	1,251	-
Employee benefits	453	804	453	802
Total Non-current	1,704	903	1,704	802
	5,120	10,154	3,020	2,550

## NOTE 25: Deferred purchase consideration

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Current				
Deferred purchase consideration	8,268	2,261	8,268	2,261
Total Current	8,268	2,261	8,268	2,261
Non-current				
Deferred purchase consideration	2,367	4,469	2,367	4,469
	2,367	4,469	2,367	4,469
Total Non-current	10,635	6,730	10,635	6,730

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 EBIT for the each of the years ending 31 December 2006 to 31 December 2009, not due and payable until the 11<sup>th</sup> of May in year following each respective period. The amount payable has been included in the determination of the value of goodwill. Interest on the earn-out consideration is payable to the Vendors annually.

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

## NOTE 26: Other liabilities

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Other Liabilities				
Accrued royalties	16,156	9,957	12,752	8,428
GST	723	1,025	603	492
Accrued interest deferred purchase consideration	2,012	1,100	2,012	1,100
Payroll accruals	679	707	644	703
Other accrued expenses	8,909	6,615	6,109	6,212
	28,479	19,404	22,120	16,935

## NOTE 27: Other financial liabilities

	Note	Consolidated		Company	
		2009	2008	2009	2008
		\$'000	\$'000	\$'000	\$'000
Current					
Derivatives					
Derivatives that are designated and effective as hedging instruments carried at fair value:					
Foreign currency forward contract	38	217	11	217	155
Interest Rate Swaps		380	-	380	-
		597	11	597	155
Loans-controlled entities		-	-	-	1,247
Disclosed in the financial statements as:					
Current Other financial liabilities		597	11	597	1,402

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

	Note	Consolidated		Company	
		2009	2008	2009	2008
		\$'000	\$'000	\$'000	\$'000
Non-Current					
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

# Notes to the Financial Statements

31 December 2009

## NOTE 28: Issued capital

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Share Capital				
340,997,682 fully paid ordinary shares (2008:165,498,841)	159,377	137,202	159,377	137,202

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	2009		2008	
	Number of Shares '000	\$'000	Number of Shares '000	\$'000
Movements in Ordinary Share Capital				
Opening balance	165,499	137,202	165,499	137,202
One for one rights issue	165,499	22,342	-	-
Share issue to NSR (HK) Ltd	10,000	1,400	-	-
Capital raising costs	-	(1,567)	-	-
Closing balance	340,998	159,377	165,499	137,202

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

### Dividend Reinvestment Plan

The company has a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than being paid in cash.

### Share Purchase Plan

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

There were no Share Purchase Plans offered to shareholders in 2008.

### Share Issue on Acquisition of Business Assets

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

## NOTE 28: Issued capital (continued)

## Options

## Employee Share Options

In accordance with the provisions of the employee share option plan as at 31 December 2009, employees and directors have options over 4,200,000 ordinary shares (of which 4,200,000 are unvested). As at 31 December 2008 employees and directors had options over 862,143 ordinary shares (of which 862,143 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 29: Accumulated losses

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Opening balance	(24,333)	26,514	(2,560)	11,170
Net (loss) after tax for the year	(58,052)	(50,847)	(84,030)	(13,730)
Dividends paid	-	-	-	-
Balance at the end of financial year	(82,385)	(24,333)	(86,590)	(2,560)

## NOTE 30: Reserves

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Currency translation reserve	(1,082)	(719)	(1)	-
Equity-settled benefits	1,236	1,224	1,231	1,224
Cash flow Hedging	(409)	(1,613)	(402)	(1,710)
	(255)	(1,108)	828	(486)
Currency translation reserve				
Balance at the beginning of the year	(719)	(171)	-	-
Translation of foreign operations	(362)	(548)	(1)	-
Balance at the end of the year	(1,081)	(719)	(1)	-

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.

## NOTE 30: Reserves (continued)

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Equity settled benefit reserve				
Balance at the beginning of the year	1,224	1,852	1,220	1,852
Share based payment	13	(628)	11	(628)
Transfer to share capital	-	-	-	-
Balance at the end of the year	1,237	1,224	1,231	1,224

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.

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Cash Flow Hedging reserve				
Balance at the beginning of the year	(1,609)	1,260	(1,710)	1,321
Gain/(Loss) recognised:				
Forward exchange contracts	104	239	165	8
Interest rate swaps	1,702	(4,338)	1,702	(4,342)
Transferred to profit or loss <sup>(1)</sup>				
Interest rate swaps	148	98	148	98
Transferred to initial carrying amount of hedged item:				
Interest rate swaps	(148)	(98)	(148)	(98)
Deferred tax asset/(liability) arising on hedges	(602)	1,230	(559)	1,303
Balance at the end of the year	(405)	(1,609)	(402)	(1,710)

(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:

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Revenue	-	-	-	-
Finance costs	(148)	(98)	(148)	(98)
	(148)	(98)	(148)	(98)

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.

## NOTE 31: Earnings per share

	Consolidated 2009 Cents per share	2008 Cents per Share
Basic earnings per share		
From continuing operations	(17.9)	(25.1)
From discontinued operations	(7.1)	(5.6)
Earnings per share	(25.0)	(30.7)

Diluted earnings per share		
From continuing operations	(17.9)	(25.1)
From discontinued operations	(7.1)	(5.6)
Earnings per share	(25.0)	(30.7)

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

	2009 \$'000	2008 \$'000
Net (loss)/profit	(58,052)	(50,847)
Earnings used in the calculation of basic EPS	(58,052)	(50,847)
Adjustments to exclude (loss) for the period from discontinued operations	(16,388)	(9,303)
(Loss) used in the calculation of basic EPS from continuing operations	(41,664)	(41,544)

	2009 No. '000	2008 No. '000
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	232,333	165,498

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

	2009 \$'000	2008 \$'000
Net (loss)	(58,052)	(50,847)
Earnings used in the calculation of diluted EPS	(58,052)	(50,847)
Adjustments to exclude (loss) for the period from discontinued operations	(16,388)	(9,303)
(Loss) used in the calculation of diluted EPS from continuing operations	(41,664)	(41,544)

	2009 No. '000	2008 No. '000
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	232,333	165,498

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.	232,333	165,498

## NOTE 31: Earnings per share (continued)

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

	2009 No. '000	2008 No. '000
Potential options non dilutive	6,850	3,115
	<u>6,850</u>	<u>3,115</u>

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

	2009 No. '000	2008 No. '000
Options to purchase ordinary shares pursuant to the employee share option plan	-	-
	<u>-</u>	<u>-</u>

## NOTE 32: Dividends

No dividends were declared or paid in 2008 or 2009.

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Adjusted franking account balance	21,891	18,826	4,519	6,354

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.



# NOTE 33: Commitments for expenditure

## Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 34 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:

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Not later than one year	5,047	7,357	1,488	7,191
Later than one year but not later than two years	1,807	2,992	414	2,992
Later than two years but not later than five years	1,477	620	84	620
	8,331	10,969	1,986	10,803

# NOTE 34: Leases

	Consolidated		Parent	
	2009	2008	2009	2008
	\$'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	3,067	4,818	2,992	4,254
Later than one year but not later than five years	7,937	4,188	7,849	4,148
Later than five years	4,272	2,993	4,271	2,993
	15,276	11,999	15,112	11,395

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.

## NOTE 35: Subsidiaries

Name of Entity	Country of Incorporation	Equity Holding	
		2009 %	2008 %
Company			
Funtastic Limited <sup>(i)</sup>	Australia	100	100
Subsidiaries			
JNH Australia Pty Ltd <sup>(ii) (iv)</sup>	Australia	100	100
Fun International Ltd	Hong Kong	100	100
Funtastic International Limited	Hong Kong	100	100
Funtastic (NZ) Pty Limited (formerly Planet Fun Pty Limited) <sup>(ii) (iv) (vii)</sup>	Australia	100	100
Dorcy Irwin Pacific Pty Limited <sup>(ii)</sup>	Australia	100	100
Dorcy Investments Pty Limited <sup>(ii)</sup>	Australia	100	100
Irwin Pacific Pty Limited <sup>(ii)</sup>	Australia	100	100
Dorcy NZ Pty Limited	New Zealand	50	50
Madman Entertainment Pty Limited <sup>(ii)</sup>	Australia	100	100
Madman Films Pty Limited <sup>(ii)</sup>	Australia	100	100
Madman Interactive Pty Limited <sup>(ii)</sup>	Australia	100	100
The AV Channel Pty Limited <sup>(ii)</sup>	Australia	100	100
Judius Pty Ltd <sup>(ii) (iv)</sup>	Australia	100	100
My Paint Box Inc (formerly Global Funtastic Inc.) <sup>(iii)</sup>	USA	100	100
Madman NZ Limited <sup>(v)</sup>	New Zealand	100	-
NSR (HK) Limited <sup>(vi)</sup>	Hong Kong	100	-
Hkeepod (HK) Limited <sup>(vi)</sup>	Hong Kong	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.

(v) Incorporated July 2009

(vi) Acquired August 2009

(vii) Change its name from Planet Fun Pty Limited to Funtastic (NZ) Limited in July 2009 as a result of the sale of the Toys New Zealand business

## NOTE 35: Subsidiaries (continued)

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

	Consolidated	
	2009	2008
	\$'000	\$'000
Revenue from continuing operations	230,511	354,850
Cost of sale of goods	(175,085)	(235,930)
Other expenses		
Warehouse and distribution	(17,769)	(26,070)
Marketing and selling	(44,409)	(56,452)
Administration	(14,285)	(11,296)
Amortisation	(84)	(2,457)
Finance costs	(8,764)	(8,364)
Impairment and restructuring costs	(18,664)	(77,263)
(Loss) before income tax	(48,549)	(62,982)
Income tax benefit	8,808	14,022
(Loss) for the period from continuing operations	(39,741)	(48,960)
Discontinued operations		
(Loss) / profit for the period from discontinued operations	(6,968)	1,382
(Loss) for the year	(46,709)	(47,578)

## NOTE 35: Subsidiaries (continued)

	Consolidated	
	2009	2008
	\$'000	\$'000
Current Assets		
Cash	1,696	5,212
Trade and other receivables	41,569	55,643
Inventories	30,986	53,527
Other	15,378	14,139
Current tax assets	1,059	2,153
Other financial assets	12,318	5,219
Total Current Assets	103,006	135,893
Non-Current Assets		
Property, plant and equipment	4,573	5,837
Goodwill	67,981	97,634
Other intangibles	541	676
Investments	4	2
Deferred tax assets	18,220	5,396
Other Financial Assets	1,619	-
Total Non-Current Assets	92,938	109,545
Total Assets	195,944	245,438
Current Liabilities		
Trade and other payables	10,543	22,502
Borrowings	6,901	23,463
Provisions	8,509	9,251
Deferred purchase consideration	8,268	2,261
Other	3,595	11,276
Other Financial Liabilities	597	11
Total Current Liabilities	38,413	68,764
Non-Current Liabilities		
Borrowings	55,532	49,370
Provisions	1,704	903
Deferred tax liabilities	6,778	4,724
Deferred purchase consideration	2,367	4,469
Other Financial Liabilities	-	2,294
Total Non-Current Liabilities	66,381	61,760
Total Liabilities	104,794	130,524
Net Assets	91,150	114,914
Equity		
Issued capital	159,212	137,199
Accumulated losses	(67,929)	(21,220)
Reserves	(133)	(1,065)
Total Equity	91,150	114,914

## NOTE 36: Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Cost of acquisition \$'000
2009				
NSR (HK) Limited	Toy Distribution	14 August 2009	100	2,279
				2,279
2008				
Nil				-
				-

The acquired business contributed revenue of \$7,608,937 and net profit after tax of \$8,576 to the group for the period 14 August 2009 to 31 December 2009.

## Net assets acquired and liabilities assumed at the date of acquisition

	Book value \$'000	Fair value adjustment \$'000	Fair value on acquisition \$'000
Current assets			
Debtors	870	(2)	868
Inventories	19	-	19
Other current assets	505	(87)	418
Non-current assets			
Plant and equipment	348	(269)	79
Deferred tax asset	528	-	528
Current liabilities			
Bank overdraft	(1,521)	-	(1,521)
Trade creditors	(1,118)	-	(1,118)
Shareholder loans	(601)	-	(601)
Employee benefits	(18)	-	(18)
Other liabilities	(2,669)	(97)	(2,766)
Provisions	-	(15)	(15)
	(3,657)	(470)	(4,127)

## NOTE 36: Acquisition of businesses (continued)

## Goodwill on acquisition

	NSR (HK) Limited
Equity to Vendor	1,400
Direct costs relating to the acquisition	879
Total Consideration	2,279
Fair value of net identifiable assets acquired	(4,127)
Excess consideration	6,406
Represented by:	
Identifiable intangible <sup>(1)</sup>	463
Goodwill	5,943
Total	6,406

<sup>(1)</sup>The net identifiable intangible represents value placed on licence and distribution agreements. These were independently valued at the time of acquisition.

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

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

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

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

On 10 May 2006 the 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 EBIT for the each of the years ending 31 December 2006 to 31 December 2009, not due and payable until the 11<sup>th</sup> of May in year following each respective period. The amount payable in 2009 was \$2,365,000.

## NOTE 37: Notes to the cash flow statement

## a) Reconciliation of cash and cash equivalents

Consolidated		Company	
2009	2008	2009	2008
\$'000	\$'000	\$'000	\$'000

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

Cash and cash equivalents	2,191	5,769	1,196	3,440
	2,191	5,769	1,196	3,440



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

## b) Financing facilities

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Total Facilities				
National Debtor Finance Facility	25,000	25,000	25,000	25,000
Trade Refinance Facility	23,300	19,900	23,300	19,900
	48,300	44,900	48,300	44,900
Used at Balance Date				
National Debtor Finance Facility	19,567	442	19,567	442
Trade Refinance Facility	6,901	13,000	6,901	13,000
	26,468	13,442	26,468	13,442
Unused at Balance Date				
National Debtor Finance Facility	5,433	24,558	5,433	24,558
Trade Refinance Facility	16,399	6,900	16,399	6,900
	21,832	31,458	21,832	31,458
Commercial Bill Facilities				
Total facilities	37,555	60,021	37,555	50,000
Used at balance date	35,965	60,021	35,965	50,000
Unused at balance date	1,590	-	1,590	-
Letter of Credit Facilities				
Total facilities	16,700	20,000	16,700	20,000
Used at balance date	6,939	12,552	6,939	12,552
Unused at balance date	9,761	7,448	9,761	7,448
Bank Guarantee Facilities				
Total facilities	2,000	2,000	2,000	2,000
Used at balance date	1,939	1,892	1,939	1,892
Unused at balance date	61	108	61	108
Other Facilities				
Total facilities	250	500	250	500
Used at balance date	249	1	249	1
Unused at balance date	1	499	1	499

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

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

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

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
(Loss) after income tax	(58,052)	(50,847)	(84,030)	(13,730)
(Gain) on sale of businesses	(6,863)	(4,212)	(3,870)	(4,212)
Amortisation	209	2,457	84	129
Impairment	29,601	50,400	55,789	13,047
Depreciation	2,616	3,015	2,304	2,774
Interest revenue	(54)	(416)	(51)	(408)
Share options expense	11	(627)	11	(627)
Loss / (profit) on sale of non-current assets	1,840	(25)	1,840	(25)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
Decrease/(increase) in trade and other receivables	13,213	10,548	9,191	2,694
Decrease/(increase) in inventories	20,657	(5,872)	10,329	(5,927)
(Increase)/decrease in deferred tax asset	(10,534)	(599)	(11,238)	225
(Increase)/decrease in prepayments	(1,060)	8,205	5,507	9,917
(Increase)/decrease in other financial assets	(79)	-	(3,702)	-
(Decrease)/increase in trade creditors and accruals	(10,477)	4,368	(8,668)	6,827
Decrease)/(increase) in current tax asset	1,922	-	1,097	-
Increase/(decrease) in current tax liability	-	4,122	-	3,308
(Decrease)/increase in employee provisions	(1,250)	(157)	(952)	1,399
Increase/(decrease) in deferred tax liability	70	(12,206)	1,871	(7,367)
Increase/(decrease) in other liabilities	489	4,058	3,767	2,048
Net cash (outflow) / inflow from operating activities	(17,741)	12,212	(20,721)	10,072

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

## d) Business disposed

During the financial year, the Group disposed of its Softgoods and Toys New Zealand business units (2008: Publishing operations were disposed). Details of the disposals are as follows:

	Consolidated		Company	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Considerations				
Total proceeds	14,617	10,178	8,854	10,178
Associated costs incurred	(2,446)	(1,788)	(2,288)	(1,788)
	12,171	8,390	6,566	8,390
<u>Book value of net assets sold</u>				
Cash and cash equivalents	4	-	-	-
Trade and other receivables	1,604	-	-	-
Inventories	4,325	3,359	2,378	3,359
Other current assets	19	1,484	5	1,484
<u>Non-current assets</u>				
Property, plant and equipment	649	96	573	96
<u>Current Liabilities</u>				
Trade and other payables	(988)	(699)	-	(699)
Provisions	(305)	(62)	(260)	(62)
Net assets disposed	5,308	4,178	2,696	4,178
Gain on disposal	6,863	4,212	3,870	4,212
Net cash inflow on disposal				
Cash and cash equivalent consideration	14,617	10,178	8,854	10,178
Less: consideration receivable on sale of business	(4,930)	-	(4,930)	-
Less: cash and cash equivalent balances disposed of	(4)	-	-	-
	9,683	10,178	3,924	10,178
Comprises of:				
Net cash inflow on disposal of Softgoods	3,924	-	3,924	-
Net cash inflow on disposal of Toys New Zealand	5,759	-	-	-
Net cash inflow on disposal of Publishing	-	10,178	-	10,178
	9,683	10,178	3,924	10,178

## e) Businesses acquired

During the financial year the group made an earn-out payment to the vendors of the Madman Group of Companies, the net cash outflow was \$2,365,000.

During the financial year the group acquired NSR (HK) Limited, the consideration was equity paid to the vendor by way of the issue of 10 million ordinary shares in Funtastic Limited.

## 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 23, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, accumulated losses and reserves as disclosed in notes 28, 29 and 30 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 renegotiated its banking facilities. The trade finance facility expires 30 June 2011. The Debtors finance and bill facilities expire on 30 June 2011 and have been disclosed as non current borrowings in the balance sheet.

A one for one renounceable rights issue was completed on 14 August 2009 raising net proceeds of \$20,775,000.

## 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.

## NOTE 38: Financial instruments (continued)

Categories of financial instruments	Consolidated		Company	
	2009	2008	2009	2008
Financial Instrument	\$'000	\$'000	\$'000	\$'000
Financial assets				
Derivative instruments in designated hedge accounting relationships	79	-	79	-
Loans and receivables (including cash and cash equivalents)	43,253	64,103	46,802	57,592
Convertible note held to maturity	1,619	-	1,619	-
Financial liabilities				
Derivative instruments in designated hedge accounting relationships	597	2,305	597	2,449
Amortised cost	110,153	125,201	103,548	56,844

## 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 2009, while there has been a strengthening of the Australian dollar against the US dollar and the Euro, and static variable interest rates, there has been no material change to the group's and company's exposure to market risk or the manner in which it manages and measures the risk.

# NOTE 38: Financial instruments (continued)

## Foreign currency risk management

Foreign currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The group 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.

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	
	2009	2008	2009	2008	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
US dollars	7,566	6,860	3,482	3,853	8,005	3,854	2,486	3,155
NZ dollars	354	13,069	1,753	7,970	329	168	466	2,230
Euro	545	4,735	13	83	545	4,735	13	83
Other	281	172	220	615	600	-	5	173

## Foreign currency sensitivity

The group and company are mainly exposed to the US dollar, Euro and the NZ dollar. The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies. 10% is the sensitivity rate which represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number indicates an increase in profit or loss and other equity where the Australian dollar strengthens against the respective currency. For a weakening of the Australian dollar against the respective currency there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	USD impact				EURO impact				NZD impact			
	Consolidated		Parent		Consolidated		Parent		Consolidated		Parent	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Profit & Loss <sup>(i)</sup>	415	119	434	166	60	661	60	661	112	422	70	65
Other equity <sup>(ii)</sup>	43	1,912	43	-	-	485	-	485	-	-	-	-

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

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

The Group's sensitivity to foreign currency has decreased during the current period mainly due to the disposal of non core businesses namely Toys New Zealand, Apparel, Footwear and Manchester all of which were the majority of foreign currency denominated creditors and cash flow hedges.

## NOTE 38: Financial instruments (continued)

## 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:

Consolidated	Average Exchange Rate		Foreign currency		Contract value		Fair value	
Outstanding contracts	2009	2008	2009	2008	2009	2008	2009	2008
Buy US dollars	AUD/USD		US\$'000	US\$'000	A\$'000	A\$'000	\$'000	\$'000
0-12 months	0.8930	0.6838	8,210	14,380	9,194	21,003	(60)	(657)
Total	0.8930	0.6838	8,210	14,380	9,194	21,003	(60)	(657)
Consolidated	Average Exchange Rate		Foreign currency		Contract value		Fair value	
Outstanding contracts	2009	2008	2009	2008	2009	2008	2009	2008
Buy EURO dollars	AUD/EURO		EU\$'000	EU\$'000	A\$'000	A\$'000	\$'000	\$'000
0-12 months	0.5989	0.4860	245	2,594	409	4,834	(12)	503
Total	0.5989	0.4860	245	2,594	409	4,834	(12)	503
Planet Fun – New Zealand	Average Exchange Rate		Foreign currency		Contract value		Fair value	
Outstanding contracts	2009	2008	2009	2008	2009	2008	2009	2008
Buy US dollars	NZD/USD		US\$'000	US\$'000	NZ\$'000	NZ\$'000	\$'000	\$'000
0-12 months	-	0.5729	-	1,860	-	3,075	-	171
Total	-	0.5729	-	1,860	-	3,075	-	171

The group's forward foreign exchange contracts comprise the company forward foreign exchange contracts. (2008: includes the company and Planet fun Pty Limited)

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 \$14,000 (2008: liability \$11,000) and liabilities of the company of \$140,000 (2008: liability \$155,000).

During the year ended 31 December 2009 a gain on hedging instruments for the group of \$105,000 (2008: gain: \$243,000) and for the company \$162,000 (2008: gain: \$8,000) have been brought to account in other current financial assets and liabilities (refer note 27). An amount, net of tax, was transferred to equity (refer note 30). 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.



## NOTE 38: Financial instruments (continued)

## 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 \$232,000 (2008: increase/decrease by \$ 316,000). 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 \$232,000 (2008: increase/decrease by \$316,000). 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 9.58% (2008: 5.41%). 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 9.58% (2008: 5.48%). 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.

The swap currently in place covers 100% (2008: 100%) of the long term loan principal outstanding and is timed to expire as the end of the facility. The fixed interest rate is 7.70% (2008: 6.71%) and the variable rate is the bank bill rate of the term of the underlying bill which at balance date was 4.2% (2008: 5.0%).

# NOTE 38: Financial instruments (continued)

As at 31 December 2009, 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	
	2009	2008	2009	2008	2009	2008
	%	%	\$'000	\$'000	\$'000	\$'000
Less than 2 years	7.70	6.71	36,000	50,000	(380)	(2,294)
2 - 3 years	-	-	-	-	-	-
			36,000	50,000	(380)	(2,294)

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 have built an appropriate liquidity risk management framework for the management of the group's short, medium and long-term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The initiation of a debt reduction plan has resulted in the divestment of under-performing or non-core assets, and reduction in levels of inventory and raising of cash via a fully underwritten rights issue.

## 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
2009							
Non-interest bearing		2,658	8,778	15,480	-	-	26,916
Variable interest rate instruments	12.34%	6,466	482	-	23,596	-	30,544
Fixed interest rate instruments <sup>(1)</sup>	7.44%	-	-	8,492	42,686	-	51,178
		9,124	9,260	23,972	66,282	-	108,638
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 <sup>(1)</sup>	6.68%	-	-	2,322	61,895	-	64,217
		26,806	20,080	16,968	61,895	-	125,749

(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
2009							
Non-interest bearing		2,592	-	7,958	-	-	10,550
Variable interest rate instruments	12.34%	6,466	482	-	23,596	-	30,544
Fixed interest rate instruments	7.44%	-	-	8,492	42,686	-	51,178
		9,058	482	16,450	66,282	-	92,272
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

# Notes to the Financial Statements

31 December 2009

## 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
2009							
Non-interest bearing		17,528	23,551	187	-	-	41,266
Variable interest rate instruments	1.78%	1,987	-	-	-	-	1,987
Fixed interest rate instruments		-	-	-	-	-	-
		19,515	23,551	187	-	-	43,253
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
Company	Weighted average effective interest rate	Less than 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	5+ years	Total
	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2009							
Non-interest bearing		17,259	23,700	4,854	-	-	45,813
Variable interest rate instruments	1.78%	1,105	-	-	-	-	1,105
Fixed interest rate instruments		-	-	-	-	-	-
		18,364	23,700	4,854	-	-	46,918
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

## 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% 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 2

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

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

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

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

# NOTE 39: Share-based payments (continued)

## Option type 3

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

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

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

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

The options are valued using a trinomial option pricing model. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

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

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

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

## Balance outstanding at the end of the financial year

### Consolidated and Company - 2009

Option Type	Option Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Balance at end of Financial year
2	33	20/03/2008	02/09/2013	\$0.44	\$0.12	200,000
3	35	10/08/2009	10/08/2014	\$0.135	\$0.072	4,000,000
3	36	10/08/2009	10/08/2014	\$0.135	\$0.072	1,000,000
						<u>5,200,000</u>

## NOTE 39: Share-based payments (continued)

## 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
1	25	11/05/2006	31/03/2011	\$1.86	\$0.22	250,000
1	27	15/08/2006	02/09/2011	\$1.64	\$0.30	157,143
2	30	17/05/2007	02/09/2011	\$1.64	\$0.30	250,000
2	33	20/03/2008	02/09/2013	\$0.44	\$0.12	200,000
2	34	23/05/2008	02/09/2012	\$1.82	\$0.11	250,000
						<u>1,107,143</u>

## Fair value of options granted

Fair values have been determined in accordance with AASB 2 'Share Based Payments' where the value of options is determined at grant date, and are included in remuneration on a proportionate basis from grant date to vesting date.

The model inputs for options granted include:

Option Number	25	27	30	33
Grant Date	11/05/06	15/08/06	17/05/07	20/03/08
Vesting Date	02/04/09	31/03/09 & 31/08/09	31/03/09 & 31/08/09	31/03/11 & 31/08/11
Expiry Date	31/03/11	02/09/11	02/09/11	02/09/13
Exercise price	\$1.86	\$1.64	\$1.64	\$0.44
Stock Price at Issue	\$1.61	\$1.64	\$1.64	\$0.37
Expected Life (years)	3.90	3.84	3.08	4.3
Volatility	30%	30%	30%	50%
Risk free rate	5.5%	5.8%	5.8%	6%
Dividend yield	6.0%	6.0%	6.0%	4.0%
Vesting period (years)	2.9	2.8	2.08	N/A
Value	\$0.22	\$0.30	\$0.30	\$0.12



## NOTE 39: Share-based payments (continued)

Option Number	34	35	36
Grant Date	23/05/08	10/08/09	10/08/09
Vesting Date	31/03/10 & 31/08/10	10/08/09, 10/08/10 & 10/08/11	10/08/09, 10/08/10 & 10/08/11
Expiry Date	02/09/12	10/08/14	10/08/14
Exercise price	\$1.82	\$0.135	\$0.135
Stock Price at Issue	\$0.66	\$0.20	\$0.20
Expected Life (years)	3.4	4.4	4.4
Volatility	60%	60%	60%
Risk free rate	6.60%	6.60%	6.60%
Dividend yield	4.0%	4.0%	4.0%
Vesting period (years)	N/A	N/A	N/A
Value	\$0.11	\$0.072	\$0.072

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

	2009		2008	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at the beginning of the financial year	1,107,143	1.51	1,415,893	1.78
Granted during the financial year	5,000,000	0.135	450,000	1.21
Forfeited during the financial year	(907,143)	1.75	(540,000)	1.85
Exercised during the financial year	-	-	-	-
Expired during the financial year	-	-	(218,750)	1.75
Balance at the end of the financial year	5,200,000	0.15	1,107,143	1.51
Exercisable at the end of the financial year	-	-	-	-

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

The weighted average remaining contractual life of the share options outstanding as at 31 December 2009 is 4.14 years (2008: 3.74 years)

The weighted average fair value of options granted during the year was \$0.07 (2008: \$0.11)

## NOTE 39: Share-based payments (continued)

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

Aggregate proceeds received from executives on the exercise of options and recognised as issued capital in the financial year was \$Nil (2008:\$ Nil).

Market value of shares issued to executives on the exercise of options as at their issue date in the financial year was \$Nil (2008:\$Nil).

## Employee Performance Share Rights

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

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

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

## EPSR Type 1

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

## EPSR Type 2

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

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

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

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

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.

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

EPSR Balance outstanding at the end of the financial year

Consolidated and Company - 2009

EPSR type	EPSR Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Balance at end of Financial year
2	31	29/06/2007	02/09/2010	Nil	\$1.82	35,000
2	35	03/07/2008	02/09/2011	Nil	\$0.39	115,000
						<u>150,000</u>

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
1	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
						<u>507,500</u>

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.

# 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:

	2009		2008	
	Number of EPSRs	Weighted average exercise price \$	Number of EPSRs	Weighted average exercise price \$
Balance at the beginning of the financial year	507,500	-	505,000	-
Granted during the financial year	-	-	292,500	-
Forfeited during the financial year	(332,500)	-	(290,000)	-
Exercised during the financial year	-	-	-	-
Expired during the financial year	(25,000)	-	-	-
Balance at the end of the financial year	150,000	-	507,500	-
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 2009 is 1.17 years (2008:1.96 years).

The weighted average fair value of performance share rights granted during the year was \$0.72 (2008: \$1.09).

## Notes to the Financial Statements

31 December 2009

### 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 and Independent Non-executive director
Stewart Downs	Managing director – appointed 25 August 2009; Chief Executive Officer - appointed effective 19 February 2009
Shane Tanner	Independent Non-executive director - appointed 19 March 2009
Craig Mathieson	Non Executive director – appointed 25 August 2009
Nir Pizmony	Executive director – appointed 25 August 2009
Antony Lynch	Independent Non-executive director- resigned effective 22 October 2009.
David Berry	Non-executive director and Company Secretary - resigned effective 20 October 2009.
Garry Mudford	General Manager TLM – appointed 10 August 2009
Adam Kocks	General Manager Operations – appointed 2 July 2007
Chris Loverso	Commercial Director – resigned effective 23 November 2009.
James Cody	Chief Financial Officer – appointed 16 November 2009
Ray Dixon	Chief Financial Officer – contract expired effective 1 December 2009
Paul Cannon	General Manager Softgoods – redundant effective 25 February 2009.
Tony Oates	Managing Director – resigned effective 19 February 2009.
Jeff Hunter	President Judius Worldwide – resigned effective 19 February 2009.

#### Key management personnel compensation

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

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Short-term employee benefits	2,102,075	2,883,521	2,102,075	2,883,521
Post-employment benefits	281,294	365,683	281,294	365,683
Termination benefits	1,347,579	119,089	1,347,579	119,089
Share-based payment	(53,315)	(128,740)	(53,315)	(128,740)
	<u>3,677,633</u>	<u>3,239,553</u>	<u>3,677,633</u>	<u>3,239,553</u>

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 (2008: Nil)

## NOTE 41: Related party transactions (continued)

## 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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



# Notes to the Financial Statements

31 December 2009

## 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. forfeited/lapsed	Balance at the end of the year	Vested and exercisable at the end of the year
2008						
Directors						
Graeme Yeomans	-	-	-	-	-	-
David Berry	-	-	-	-	-	-
Antony Lynch	-	-	-	-	-	-
David Hendy	-	-	-	-	-	-
Tony Oates	500,000	250,000	-	-	750,000	-
Executives						
Stewart Downs	-	200,000	-	-	200,000	-
Ray Dixon	-	-	-	-	-	-
Adam Kocks	-	-	-	-	-	-
Paul Cannon	157,143	-	-	-	157,143	-
Ed Medica	-	-	-	-	-	-
Jeff Hunter	-	-	-	-	-	-
Karl Nixon	390,000	-	-	(390,000)	-	-
Mark Scott	100,000	-	-	(100,000)	-	-
Robert Vasy	75,000	-	-	(75,000)	-	-

# Notes to the Financial Statements

31 December 2009

## NOTE 41: Related party transactions (continued)

### Performance Share Right holdings

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

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

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

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

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

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

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

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

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

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

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
<b>Executives</b>						
Stewart Downs	-	-	-	-	-	-
Ray Dixon	-	-	-	-	-	-
Adam Kocks	-	20,000	-	-	20,000	-
Paul Cannon	30,000	30,000	-	-	60,000	-
Ed Medica	55,000	30,000	-	(85,000)	-	-
Jeff Hunter	25,000	30,000	-	-	55,000	-
Robert Vasy	60,000	-	-	(60,000)	-	-
Mark Scott	30,000	-	-	(30,000)	-	-
Karl Nixon	-	-	-	-	-	-

# Notes to the Financial Statements

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## NOTE 41: Related party transactions (continued)

### Share holdings

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

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

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

## NOTE 41: Related party transactions (continued)

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	818,938	-	-	-	818,938
David Hendy	2,599,650	-	-	-	2,599,650
Executives					
Stewart Downs	-	-	871,445	(50,000)	821,445
Karl Nixon	50,000	-	-	-	50,000
Ray Dixon	-	-	-	-	-
Mark Scott	-	-	-	-	-
Paul Cannon	-	-	-	-	-
Adam Kocks	-	-	-	-	-
Ed Medica	-	-	-	-	-
Jeff Hunter	-	-	-	-	-
Robert Vasy	-	-	-	-	-

## NOTE 41: Related party transactions (continued)

## c) Transactions with key management personnel of the Group

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

	Consolidated	
	2009	2008
	\$'000	\$'000
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Gross revenue	3	-
Interest revenue	-	-
Dividend revenue	-	-
	3	-
Consolidated profit includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Cost of goods sold	991	-
Warehouse & distribution	2,834	1,955
Marketing & Selling	115	111
Interest expense	-	-
Net amounts written off and allowances for doubtful receivables	-	-
	3,940	2,066
Total assets arising from transactions other than loans and amounts receivable in relation to equity instruments with key management personnel or their related parties:		
Current – Inventories	50	-
Allowance for doubtful receivables	-	-
Non-current	-	-
	50	-
Total liabilities arising from transactions other than compensation with key management personnel or their related parties:		
Current	378	167
Non-current	-	-
	378	167

# Notes to the Financial Statements

31 December 2009

## NOTE 41: Related party transactions (continued)

During the financial year, the Group recognises the following transactions with key management personnel:

- § Sales of \$3,000 (2008: Nil) to Petite Living Pty Limited a company related to Mr Craig Matheson and Mr Stewart Downs;
- § Purchases of \$1,041,000 (2008: Nil) during the year from Toymonster Limited a Hong Kong registered company related to Mr Nir Pizmony;
- § Payments of \$1,738,000 (2008: \$785,000) for the provision of casual labour to Premium People Pty Limited a company related to Mr Craig Matheson;
- § Rental expense of \$1,162,000 (2008: \$1,281,000) was paid to Jemasky Pty Limited a company related to Mr Nir Pizmony for the rental of office and warehouse space;
- § As a result of the acquisition of NSR (HK) Limited a company related to Mr Nir Pizmony, the Group assumed responsibility for the loans advanced to NSR by its Shareholders. Under the terms of the acquisition, Funtastic Limited repaid \$650,000 of the shareholder loan at the date of completion i.e. 14 August 2009. A further US\$650,000 has since been paid to the NSR Shareholders of NSR on 4 January 2010.

### d) Transactions with other related parties

Transactions between Funtastic Limited and other entities in the wholly-owned group during the years ended 31 December 2009 and 2008 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.

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	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Loans to controlled entities	-	-	7,636	2,366
Loans from controlled entities	-	-	1,180	1,247
Sale of product to controlled entity	-	-	1,396	789
Purchases of products from controlled entities	-	-	749	-
Interest charged to controlled entity	-	-	-	174
Provision of management services to controlled entities	-	-	-	292
Management services provided by controlled entities	-	-	-	1,223

## NOTE 42: Remuneration of Auditors

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Auditor of the parent entity				
Audit and review of the financial reports of the entity	351,500	361,000	340,000	271,000
Other associated auditors	38,000	35,000	-	35,000
Preparation of tax return	39,000	-	39,000	-
Other services	142,977	333,000	142,977	333,000
	571,477	729,000	521,977	639,000

The auditor of Funtastic Limited is Deloitte Touche Tohmatsu.

## NOTE 43: Subsequent events

Since December 31, 2009 the decision was made not to renew the Disney distribution agreement and to withdraw from the Interactive business unit. There have been no other major events since December 31, 2009 which have a material impact on the current financial position or the financial prospects of Funtastic Limited.

## NOTE 44: Contingent liabilities

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



## Additional stock exchange information as at 22 March 2010

### 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	931	-	-
1,001 – 5,000	2,232	-	2
5,001 – 10,000	995	-	2
10,001 – 100,000	1,219	-	4
100,001 and over	154	2	-
	5,531	2	8

There are 1,970 shareholders holding less than a marketable parcel of ordinary shares.

### Substantial holders

Substantial holders in the company are set out below:

	Shares	%
KOORYONGKOOT PTY LTD, HOLDREY PTY LTD, DDVM SUPERANNUTATION NOMINEES PTY LTD, CRAIG MATHIESON	87,880,947	25.77
BELL POTTER NOMINEES LTD	48,466,276	14.21
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	21,176,687	6.21
J P MORGAN NOMINEES AUSTRALIA LIMITED	19,500,861	5.72
NATIONAL NOMINEES LIMITED	18,161,049	5.33
	195,185,820	57.24

Additional stock exchange information as at 22 March 2010

Twenty largest quoted equity security holders.

		Shares	%
1	KOOYONGKOOT PTY LTD <LAUREN MATHIESON FAMILY A/C>	78,885,036	23.13
2	BELL POTTER NOMINEES LTD	48,466,276	14.21
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	21,176,687	6.21
4	J P MORGAN NOMINEES AUSTRALIA LIMITED	19,500,861	5.72
5	NATIONAL NOMINEES LIMITED	18,161,049	5.33
6	AC4 BELCO BVBA	7,761,318	2.28
7	NSR PEAS PTY LTD	6,000,000	1.76
8	DDVM SUPERANNUATION NOMINEES PTY LTD	5,700,438	1.67
9	STANLEY STREET PTY LTD	5,316,839	1.56
10	ARCHER CAPITAL 4A PTY LTD	4,619,341	1.35
11	ARCHER CAPITAL 4B PTY LTD	4,619,341	1.35
12	PIZ BY PIZ PTY LTD	4,523,219	1.33
13	CITICORP NOMINEES PTY LIMITED	4,344,506	1.27
14	MR VINCENT MICHAEL O'SULLIVAN	4,050,000	1.19
15	MR HOD PIZEM	4,000,000	1.17
16	FORTIS CLEARING NOMINEES P/L <SETTLEMENT A/C>	3,806,001	1.12
17	MR CHRISTOPHER IAN WALLIN + MS FIONA KAY WALLIN <CHRIS WALLIN SUPERFUND A/C>	3,192,494	0.94
18	MR NIR PIZMONY + MRS MARIA LUTGARDA PIZMONY <PIZMONY FAMILY SUPERFUND AC>	2,929,688	0.86
19	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	1,932,926	0.57
20	BOND STREET CUSTODIANS LIMITED <NBLTAW - V94372 A/C>	1,642,690	0.48
		250,628,710	73.50

Additional stock exchange information as at 22 March 2010

#### Unquoted equity securities

	Number on Issue	Number of holders
Options issued under the Funtastic Executive Share Option Plan	5,200,000	2
Performance share rights issued under the Funtastic Employee Performance Share Rights Plan	150,000	8
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