Appendix 4E

Preliminary Final Report

Financial period ended 31 July 2010

funtastic LIMITED

Appendix 4E – Preliminary Final Report

Name of Entity:	Funtastic Limited
ABN:	94 063 886 199
Current Financial Period Ended:	Period ended 31 July 2010
Previous Corresponding Reporting Period:	Year ended 31 December 2009

Results for Announcement to the Market

	$'000	**Percentage increase / (decrease) over previous corresponding period**
Revenue		
Revenue from continuing operations	111,052	(51.7%)
Revenue from discontinued operations	-	(100.0%)
EBITA		
EBITA for the period from continuing operations	698	103.3%
EBITA for the period from discontinued operations	-	100.0%
Net Loss		
Net Loss for the period from continuing operations	(3,579)	(91.4%)
Net Loss for the period from discontinued operations	-	100.0%
Net Loss for the period attributable to members of Funtastic Limited	(3,579)	(93.8%)

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

Net Tangible Assets/(Liabilities)	**31 July 2010**	**31 December 2009**
Net tangible assets/(liabilities) per security	(0.93 cents)	0.12 cents

Brief explanation of any figures reported above necessary to enable the figures to be understood
Refer to the attached Review of Operations

Review of operations

Change in year-end & half-year financial reports

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

Accordingly, the Group will not prepare and lodge a half-year financial report for the half-year ended 30 June 2010; instead, the Group will prepare an annual financial report for the period from 1 January 2010 to 31 July 2010 and for every 12 months ended 31 July thereafter. The Group's first half-year financial report will be for the 6 months ending 31 January 2011.

Review of operations

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

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

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

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

Financing Arrangements

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

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

Looking Forward

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

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

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

Dividends

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

Rounding of amounts to nearest thousand dollars

The Group 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.

Compliance Statement

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

Shane Tanner

Chairman of the Board

Melbourne

30 September 2010