31 March 2011

TURNAROUND DELIVERING INCREASING PROFITABILITY

Funtastic Limited (ASX: FUN) is pleased to announce its results for the half-year ended 31 January 2011.

- The Group returned to profitability during the period in which it generated a net profit of $366,000 (continuing operations net profit of $696,000) on lower revenues illustrating the continued traction of the Group's turnaround strategy;
- Revenue from continuing operations has fallen and although Funtastic's key brands performed well as part of product rationalisation, the Group's secondary brands suffered as retailers reduced support for all but the strongest performing brands during the tough retail trading conditions; and
- Despite the 9.5% fall in continuing revenue, continuing Group EBITDA was $5.0m compared with a $29.7m loss in the comparative period. This is largely due to (i) 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; and (ii) the continued implementation of the Group's turnaround strategy which involves operating off a lower cost base.

The table below details the contributions from both the continuing and discontinuing businesses and the effect on the reported results between the current reporting period and the comparative period (half-year ended 31 January 2010).

	31 January 2011	31 January 2010	Variance	
	$'000	$'000	$'000	%
Revenue				
Continuing operations	98,683	109,095	(10,412)	(9.5)
Discontinued operations	-	14,057	(14,057)	(100)
Group Revenue	**98,683**	**123,152**	**(24,469)**	**(19.9)**
EBITDA				
Continuing operations	4,971	(29,737)	34,708	>100
Discontinued operations	(330)	(1,615)	1,285	79.6
Group EBITDA	**4,641**	**(31,352)**	**35,993**	**>100**
Net Profit/(Loss)				
Continuing operations	696	(29,664)	30,360	>100
Discontinued operations	(330)	(1,615)	1,285	79.6
Group Net Profit/(Loss)	**366**	**(31,279)**	**31,645**	**>100**

Outlook

The turnaround of the Group, as discussed below, continues to progress and management remains confident of further improvements in the financial performance of the business moving forward. However, existing challenging retail conditions make it difficult to predict performance in the second half and accordingly the Directors are not in a position to announce Earnings Guidance in respect of the full year. Notwithstanding this, the Directors are confident that the Group will deliver a stronger result in the second half, with a progressive improvement towards acceptable profitability levels. Highlights with respect to the future direction of the Group are outlined below:

Funtastic Group

- In August/September, 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; and
- The planning system implemented in 2009 is enabling more accurate purchasing decisions and therefore more sustainable inventory levels. However, the Directors note that less inventory was cleared than anticipated, all of which has been adequately provided for at the end of the half-year.

Toys & Lifestyle Merchandise

- 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 which has resulted in lower revenues;
- However, the business has progressed from a segment loss of $3.7m to a segment profit of $2.2m reflecting a combination of (i) focused product range; (ii) improved inventory management (less problematic/obsolete inventory); (iii) improved foreign exchange hedging arrangements; and (iv) a lower cost base following the August/September phase of the implementation of the Group's turnaround strategy;
- 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;
- As announced in December, Funtastic has secured a distribution agreement for Squinkies™ (a collection of squishy and adorable mini doll and pet pencil toppers). The product was recently launched in the United States where it became the hottest girls' collectible toy for Christmas which was confirmed in February with the US Toy Industry Association (TIA) awarding the product "Girls Toy of the Year". The Group began selling Squinkies™ in March;
- Funtastic's brand portfolio also received further accolades as leading educational toy brand, LeapFrog, received an astounding two TIA 2011Toy of the Year awards; and
- During the period, Funtastic executed an exclusive distribution partnership with Kidz@Play Pty Ltd (KAP) to manage KAP's successful LEGO license portfolio. The partnership sees Funtastic represent these lines both within Australia and New Zealand.

International

- The growth of the International business continues to expand the Group's distribution reach; and
- During the period, in order to capitalize on the International market, the Group has invested in this segment of the business and, whilst only a small contribution has been generated, the Directors are confident that the investment will generate significantly stronger returns in the second half and beyond.

Entertainment

- Whilst the Entertainment business has experienced a slowing demand for its back catalogue products, ageing inventory has been adequately provided for in accordance with the Group's accounting policy – contrary to these issues, the business has increased profitability on lower revenues which, to an extent, is also a result of exiting the Interactive market in January 2010 due to notable margin erosion.
- Whilst Madman continues to outperform its competitors in its traditional market, the broader industry is going through a period of significant change. DVD as a format is maturing and beginning to be superseded by Blu Ray; there has been a dramatic expansion in the number of free to air TV channels as well as several new internet based providers. The common denominator in all of this change is the need for content; Madman, through its extensive library and alliances with all the existing and emerging players, is incredibly well positioned to take advantage of the changing environment.

The combination of the continuing turnaround of the Group, TIA toy awards, expanding overseas and access to new brands, such as Squinkies™ and LEGO, make this an exciting time for the Funtastic business.

Financing Arrangements

Subsequent to the end of the half-year reporting period ended 31 January 2011, the Group has, again successfully, extended the maturity date of its financing arrangements to 31 August 2013. As previously foreshadowed, the Group is now required to comply with certain financial covenants, including amortisation of its commercial bills facility which precludes the payment of dividends during the amortisation period.

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For more information on Funtastic, visit the web site at www.funtastic.com.au and for comment contact James Cody, Ph: 03 8531 0000