

## **Appendix 4E**

### **Preliminary Final Report**

**Financial year ended 31 July 2011**



## Appendix 4E – Preliminary Final Report

<b>Name of Entity:</b>	Funtastic Limited
<b>ABN:</b>	94 063 886 199
<b>Current Financial Period Ended:</b>	Year ended 31 July 2011
<b>Previous Corresponding Reporting Period:</b>	7 month period ended 31 July 2010

### Results for Announcement to the Market

	\$'000	Percentage increase / (decrease) over previous corresponding period
<b>Revenue</b>		
Revenue from continuing operations	183,052	64.8%
<b>EBITDA</b>		
Underlying EBITDA <sup>1</sup> for the period from continuing operations	3,576	79.8%
EBITDA for the period from continuing operations	(29,058)	n/m
<b>Net Loss</b>		
Net Loss for the period from continuing operations	(38,205)	n/m
Net Loss for the period attributable to members of Funtastic Limited	(38,205)	n/m

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 Liabilities	31 July 2011	31 July 2010
Net tangible liabilities per security	(11.2 cents)	(0.93 cents)

**Brief explanation of any figures reported above necessary to enable the figures to be understood**  
Refer to the attached Annual Financial Report

<sup>1</sup> Underlying EBITDA is before impairment charges, restructuring costs and other material items. Refer to the Annual Financial Report for further information.

n/m – not meaningful.

## Compliance Statement

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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.

A handwritten signature in black ink, appearing to read 'Shane Tanner', is written over a large, faint, vertical watermark that says 'For personal use only'.

**Shane Tanner**

Chairman of the Board

Melbourne

30 September 2011

Annual Report  
for the financial year ended  
31 July 2011



ACN 063 886 199

# Message to Shareholders

## Introduction

On behalf of the Board of Directors of Funtastic Limited we present to you our 2011 Annual Report.

## The Period in Review

The twelve months ended 31 July 2011 have been one of the most challenging periods for retail in Australia and around the world, for many years. Consumer sentiment has waned over the period, noticeably so since the last interest rate rise in late 2010 and exacerbated further at the start of this year by the numerous natural disasters. The impact of these pressures has been felt throughout Funtastic's business units as retailers have become extremely risk averse and tightly manage their working capital positions.

As a supplier to the retail channel, naturally, we are not immune from the affects the negative consumer sentiment has had on our retail customers and their attempts to consolidate their inventory positions. Additionally, one of our key retail customers has pursued a strategy of "home brand" focus that has significantly affected our sales volumes of key brands to that customer. Although we are working hard to replace the lost revenue and margin via other customers and channels, the initial sudden impact of the loss has been difficult to overcome in the short term.

Despite the broader economic downturn, the Board and Management have been extremely focussed on delivering on our business improvement initiatives which have included:

1. Further rationalisation of the product portfolio in the Toys & Sporting business, this took the number of brands from 45 to 23 as management acknowledged that the initial reductions didn't go far enough;
2. A restructure of the International business following the realisation that it will take longer than initially thought to reach the desired revenue base, this restructure is delivering significant cost reduction;
3. Further consolidation of the Australian logistics operations into one facility;
4. The divestment of the Education business; and
5. The commencement of an operational review of the Madman business which is ongoing.

Additionally, following on from the brand rationalisation initiative, it was appropriate to ensure that the operating cost base of the business was aligned to the simpler brand portfolio, consequently management embarked on a comprehensive cost base reduction; this exercise resulted in a reduction in the ongoing cost base of \$9m (17%).

Whilst the business continues to pursue a strategy of focussing only on the most profitable brands, the difficult retail conditions have resulted in delays in clearing the legacy inventory. Compounding this issue is the fact that Madman experienced a significant reduction in demand for back catalogue product in the second half. Consequently the business carried higher inventory levels into the year-end than planned and management have elected to provision prudently against the slowest moving lines in order to ensure it is not cleared at a loss.

The Group's Earnings before Interest, Taxation, Depreciation and Amortisation expenses (EBITDA), as disclosed on page 36, for the year were a loss of \$29.1m. These earnings were negatively impacted by impairment, restructuring and other material items, as set out in the table below and totalling \$32.7m, resulting in an underlying EBITDA of \$3.6m (compared with the prior 7 month period of \$2.0m).

In light of the impact the general weakened retail environment has had on the earnings of the Group, management has reassessed the carrying value of a number of the assets on the Group's balance sheet, resulting in additional provisions and impairment charges in the period. These material/one-off items are discussed in detail throughout the Annual Report but in summary are comprised as follows:

	\$m
<i>Impairment Charges:</i>	
Goodwill impairment	4.5
Distribution agreements	0.9
Major legal provision	6.1
<i>Restructuring Costs:</i>	
Restructuring costs	4.7
<i>Other Material Items:</i>	
Acceleration in impairment of Madman prepaid royalties	6.1
Reassessment of inventory carrying values	5.2
Legacy licensor audits/disputes	3.1
Legal expenses	2.1
<b>Total Impairment, Restructuring Costs &amp; Other Material Items</b>	<b>32.7</b>

Included in the table above were significant one-off legal costs of \$2.1m; these costs predominantly represent legal fees incurred defending three disputes. The legal matter in relation to MGA and Bratz Dolls was successfully settled during the year. Another dispute in respect of a former license and distribution agreement is close to being settled. The final matter relates to the proceedings against Australian Horizons Trading Pty Limited (AHT) and Jeffrey Moss as guarantor of certain AHT obligations under the Sale of Business agreement, to recover unpaid debts resulting from the sale of Funtastic's apparel business in August 2009.

Whilst the Board remain of the view that Funtastic has a strong position against the entities involved in this case, given the passage of time, the fact that AHT is now in liquidation and that Jeffrey Moss has resisted all meaningful attempts to settle, the Board have decided to fully provide for the asset recognised at the time of the sale of \$6.1m. However, the impairment of this asset does not mean that the Board has conceded on recovering the money the Company is owed; on the contrary, the matter will continue to be vigorously pursued.

## Outlook

As an overview, the Group has realigned its product portfolio with a significant brand reduction in line with market conditions and has launched, and will continue to launch, new brands with proven international success to strengthen its portfolio in these tough trading conditions.

Despite the Group's disappointing earnings for the year to 31 July 2011 and the bleak retail environment, Funtastic, through the Toys & Sporting business, won significant new business during the period in Lego licensed products and Squinkies; and for the FY12 financial year will introduce exciting new brands: Power Rangers, Pillow Pets, Winx and Leap Pad. The Board recognises that today's consumer is all about brands with innovation and a point of difference, so the tighter portfolio reflects consumer preference.

The Madman business is navigating a changing industry environment as the strength of DVD fades and emerging digital channels as well as expanded traditional TV content, jostle for prominence in the future. With its extensive catalogue, multi-rights distribution agreements and content arrangements with each of the major digital delivery providers, Madman is extremely well positioned to ensure that however the landscape unfolds; it will be a significant participant. The challenge in the meantime is to ensure that the business manages its transition from physical to digital with the appropriate cost base for a period of uncertain revenues.

A strategic review of the International business has been undertaken which is delivering a reduction in the cost base and a rationalisation of the product portfolio in line with Toys & Sporting. These changes will result in a business which is focussed on maximising the global sales opportunities of a few core brands.

The Board are therefore comfortable that the focussed approach across the Group to the product portfolio, coupled with the significant reduction in cost base, will ensure that Funtastic returns to profitability and delivers improved cash flows and debt reduction in the 2011/12 financial year. A review of the first quarter's financial performance will be provided at the upcoming Annual general Meeting which will be held in November.

Finally, in September 2011, the Group secured an extension of its financing arrangements with its senior lender, National Australia Bank, to 31 August 2013, reflecting National Australia Bank's ongoing support for the Group. Pursuant to the renegotiation of its borrowings, certain financial covenants have been introduced including amortisation of the commercial bills facility and no dividend payments permitted before 31 August 2013.

The Directors would like to thank all of our staff, shareholders, suppliers and customers for their ongoing loyalty and support whilst the Group completes its turnaround strategy.



Shane Tanner  
Chairman of the Board



Stewart Downs  
Managing Director

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## Company Information

Directors	Shane Tanner <i>Chairman and Independent Non-Executive Director</i>
	Stewart Downs <i>Managing Director and Chief Executive Officer</i>
	Nir Pizmony <i>Executive Director</i>
	Craig Mathieson <i>Non-Executive Director</i>
	Stephen Heath <i>Independent Non-Executive Director</i>
	Linda Norquay <i>Independent Non-Executive Director</i>
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	Registries Limited Level 7 207 Kent Street Sydney NSW 2000
Auditors	Deloitte Touche Tohmatsu 550 Bourke Street Melbourne Vic 3000
Bankers	National Australia Bank 500 Bourke Street Melbourne Vic 3000
Solicitors	Freehills 101 Collins Street Melbourne Vic 3000

## Corporate Governance Statement

The Corporate Governance principles that guide the operations of Funtastic Limited ("Funtastic" or "Company") 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 2011 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 approving 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, Ms Linda Norquay and Mr Stephen Heath are independent directors. On 2 September 2011, Mr James Flintoft (also deemed independent) resigned from the Board.

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 three non-executive directors. Mr Craig Mathieson is the chairman of the committee. 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 (Clth)* and Funtastic's Constitution, directors must keep the Board advised on an ongoing basis, of any interest that could potentially conflict with those of Funtastic. Where the Board believes that a significant conflict exists, the director

concerned does not receive the relevant Board papers and is not present at the meeting while the item is considered.

#### Independent Professional Advice

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

#### Communication and disclosure

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

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

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

#### Director competencies

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

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

#### Ethical Standards

All directors, officers and employees are expected to perform their duties professionally and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of Funtastic and its brands. The Board oversees the identification 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 during certain “blackout” periods. These blackout periods are:

- (a) From the close of the accounts (on 31 January each year) to 2 business days after the publication to the ASX of the half-year financial results; i.e. the Appendix 4D (a 2 business day blackout period would apply from the publication to the ASX of the final half-year financial report in the event that they were materially different from the Appendix 4D results);
- (b) From the close of the accounts (on 31 July each year) to 2 business days after the publication to the ASX of the full-year financial results; i.e. the Appendix 4E (a 2 business day blackout period would apply from the publication to the ASX of the final full-year financial report in the event that they were materially different from the Appendix 4E results); and
- (c) Forty-eight hours after the public release of any market guidance update.

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 (C/th)* 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 Shane Tanner (Chairman), Craig Mathieson, Linda Norquay and Stephen Heath.

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 Craig Mathieson (Chairman), Shane Tanner, Linda Norquay and Stephen Heath.

#### 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 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; 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

During the year, there was 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 received and reviewed the minutes of the meetings of all Board committees including the Audit, Risk and Compliance Committee. During the year, the internal audit function was absorbed into the Head Office finance department.

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), Craig Mathieson, Stephen Heath and Linda Norquay.

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

### Change in financial year end date

In June 2010, the Australian Securities and Investment Commission ("ASIC") granted relief to enable the Company to change its financial year end date from 31 December to 31 July. The comparative period in this annual report is a transitional period from 1 January 2010 to 31 July 2010 (i.e. seven months); the current period is the 12 month period ended 31 July 2011.

### Directors

Your Directors present their report on the Group consisting of Funtastic Limited and the entities it controlled at the end of, or during, the year ended 31 July 2011.

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

Director	Particulars
Shane Tanner FCPA, ACIS Chairman and Independent Non-executive director	<p>Appointed to the Board in March 2009 as an Independent Non-executive director and appointed as Chairman of the Board effective from the AGM on 21 May 2010. Mr Tanner is Chairman of the Nomination Committee and a member of the Remuneration and Evaluation Committee and the Audit, Risk and Compliance 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>
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 Commerce majoring in Economics, Business Administration and Accountancy.</p>
Craig Mathieson B.Bus Non-executive director	<p>Appointed to the board in August 2009 as a Non-executive director. Mr Mathieson is Chairman of the Audit, Risk and Compliance Committee, a member of the Remuneration and Evaluation 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>
Stephen Heath Independent Non-executive director	<p>Appointed to the Board in October 2010 as an Independent Non-executive director. Mr. Heath is a member of the Audit, Risk and Compliance Committee, the Nomination Committee and the Remuneration and Evaluation Committee.</p> <p>Stephen has extensive retail experience comprising 17 years across iconic Australian Retail Brands including Harvey Norman, Rebel Sport, and Godfreys. Stephen is currently Managing Director of International Cleaning Solutions Holdings which has retail and wholesale interests in Australia, N.Z, and the UK. Previous to his current appointment Stephen was CEO of Rebel Sport during its public listing on the ASX. Stephen also spent 5 years with Sharp Corporation managing the retail accounts of major retailers such as Harvey Norman, Myers, David Jones &amp; Kmart.</p>

Linda Norquay  
B.Com, CA  
Independent Non-executive director

Appointed to the Board in September 2011 as an Independent Non-executive director. Ms. Norquay is a member of the Audit, Risk and Compliance Committee, the Nomination Committee and the Remuneration and Evaluation Committee.

Linda is currently Chief Financial Officer at Illyria Pty. Ltd. Linda brings a wealth of financial and strategic experience to Funtastic Limited and has previously held senior financial and management roles at Allco Finance Group, Macquarie Bank Limited and Barclays Bank Plc in London.

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, the Nomination Committee and Chairman 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 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.

Resigned effective 2 September 2011.

## Directorships of other listed companies

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

Director	Company	Period
Shane Tanner	Vision Group Holdings Limited	2004 to current
	Paragon Care Limited	2005 to current
	Sterihealth Limited	2001 to 2008
Stewart Downs	None	
Craig Mathieson	None	
Nir Pizmony	None	
Stephen Heath	None	
Linda Norquay	None	
James Flintoft	None	

## Company Secretary

Mr. James Cody was appointed to the position of Company Secretary on 26 March 2010. Mr. Cody is also the Chief Financial Officer of the Company and is a CIMA (UK) qualified finance director with a wealth of retail experience, and also brings with him a successful record of strategic and commercial management such that he is considered a key asset to the Group in executing its turnaround strategy.

## Principal activities

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



## Directors' Report (continued)

### Subsequent events

Whilst the Group completed the renegotiation of its financing arrangements in September 2011, as at balance date they were contractually due to be repaid on 31 August 2011. Consequently, the Group's borrowings have been presented as current in this annual financial report. Pursuant to the renegotiation of its borrowings, maturity of the facilities has been extended to 31 August 2013 with certain financial covenants being introduced, including amortisation of the commercial bills facility with no dividend payments permitted during the period through to maturity. The Group amortised \$2,000,000 of its commercial bill facility on 31 August 2011.

There has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### 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 July 2011 include the following:

- The particularly challenging retail environment in Australia and around the world;
- Lacklustre consumer sentiment;
- A key retailer embarked on a major strategic realignment which resulted in delisting Funtastic's secondary brands and concentrating on direct imports of their own brand;
- A significant decline in sales of Razor product driven by the Ripstik brand not annualising previous volume;
- Costly legal expenses incurred defending various disputes;
- The provision for impairment charges and restructuring costs; and
- Securing ongoing bank facilities to 31 August 2013.

The table below shows the contributions from the Group's operations and the effect on the trading result:

	12 months Ended 31 July 2011 \$'000	7 months Ended 31 July 2010 \$'000
Revenue	183,052	111,052
EBITDA before Impairment, Restructuring Costs & Other Material Items ("Underlying EBITDA")	3,576	1,989
Impairment charges	(11,511)	-
Restructuring costs	(4,660)	-
Other material items (including legal costs)	(16,463)	(505)
EBITDA	(29,058)	1,484
NPAT	(38,205)	(3,579)

## Directors' Report (continued)

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### Outlook

The turnaround of Funtastic's business has taken longer and has been more problematic than originally envisaged. However management and the Board remain extremely committed to the business and the turnaround strategy and believe that there are some solid, early indications of success.

### *Toys & Sporting*

Whilst the recent results have been disappointing and the retail outlook remains bleak, Funtastic is seeing margins begin to grow and has reduced its cost base to a level which is appropriate in these times of economic uncertainty. Additionally management believe that the business now has an unrivalled stable of brands which will help underpin profitable growth in the immediate future, driven by a strategy of "core range everyday" and appropriate demand generation.

### *Madman*

Madman faces a number of uncertainties due to the combination of retail factors mentioned previously as well as the rapidly changing industry landscape. However, as the leading independent distributor in Australia and New Zealand Madman has secured arrangements as a content provider with each of the major digital delivery providers. Management have embarked on an extensive operational review of the business which will deliver process improvements and operating efficiencies and will ensure that the business is structured appropriately for the changing industry environment.

### *International*

The recent review of the International business will ensure that the cost base is appropriate for the revenue levels the business is currently generating. The product rationalisation being undertaken is resulting in a very focussed business able to capitalise on global opportunities.

In summary therefore, the Board are of the view that the changes implemented during the last two years ensure that Funtastic will return to profitability in the 2011/12 financial year.

### Financing Arrangements

Whilst the Group completed the renegotiation of its financing arrangements in September 2011, as at balance date they were contractually due to be repaid on 31 August 2011. Consequently, the Group's borrowings have been presented as current in this annual financial report.

Pursuant to the renegotiation of its borrowings, maturity of the facilities has been extended to 31 August 2013 with certain financial covenants being introduced, including amortisation of the commercial bills facility (including repaying \$10,000,000 of borrowings in the 2012 financial year, \$2,000,000 of which was repaid on 31 August 2011) and with no dividend payments permitted during the period through to maturity.

### Dividends

In accordance with the Facilities Agreement (Agreement) between the Company and its senior lender National Australia Bank, the Company is precluded from declaring and paying dividends during the term of the Agreement, which ends 31 August 2013. Accordingly, since the end of the year, the directors have not declared a dividend for the year ended 31 July 2011 (2010: Nil).

### Rounding of amounts to nearest thousand dollars

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

### Share Options

Share options and Performance Share Rights granted to directors and executives

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

## Directors' Report (continued)

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

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

#### (a) Executive share options (ESOPs)

Issuing entity	Number of ordinary shares under option	Class of share	Exercise Price of options	Expiry Date
Funtastic Limited	4,000,000	Ordinary	\$0.135	10/08/2014
Funtastic Limited	1,000,000	Ordinary	\$0.207	01/04/2015
Total ESOP	5,000,000			

#### (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			

#### (c) Performance share rights

Nil

## 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 (Cth)*. 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 July 2011 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
S Tanner	16	16	3	3	1	1	1	1
S Downs	14	16	-	-	-	-	-	-
C Mathieson	16	16	3	3	1	1	1	1
N Pizmony	13	16	-	-	-	-	-	-
J Flintoft	15	16	3	3	1	1	1	1
S Heath <sup>(1)</sup>	10	10	2	2	1	1	1	1

(1) Mr S Heath - appointed independent non-executive director effective 1 October 2010.

Column A indicates the number of meetings attended during the year the Director was a member of the Board and/or Committee(s).

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

### 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 No.	Share Options No.	Performance Share Rights No.
S Tanner	200,000	-	-
S Downs	1,742,890	4,000,000	-
C Mathieson	96,812,398	-	-
N Pizmony	14,119,688	-	-
S Heath	-	-	-
L Norquay	-	-	-

## Directors' Report (continued)

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### Remuneration Report

#### Details of key management personnel

The following persons acted as directors of the Group and Company during or since the end of the financial year:

Shane Tanner	Chairman and Independent Non-executive Director
Stewart Downs	Managing Director and Chief Executive Officer
Craig Mathieson	Non-executive Director
Nir Pizmony	Executive Director
Stephen Heath	Independent Non-executive Director – appointed 1 October 2010
Linda Norquay	Independent Non-executive Director – appointed 2 September 2011
James Flintoft	Independent Non-executive Director – resigned 2 September 2011

The highest remunerated Group and Company executives for the financial year were:

Stewart Downs	Managing Director and Chief Executive Officer
Nir Pizmony	Executive Director
James Cody	Chief Financial Officer & Company Secretary
Tim Anderson	Joint General Manager – Entertainment
Paul Wiegard	Joint General Manager – Entertainment
Garry Mudford	General Manager Toys & Sporting – redundant effective 2 September 2010
Adam Kocks	General Manager Asia – redundant effective 20 June 2011

There were no additional key management personnel for the 2011 financial year.

## 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 (2000). Other measures include revenue growth, return on average funds employed, net operating cash flow, total shareholder return and other business objectives.

As the Group continues to implement its turnaround strategy, the total Short Term Incentive ("STI") eligible payments made in 2011 were \$116,666 (2010: Nil). The long term financial incentive performance hurdle rates have not been achieved, either in financial year 2011 or in financial period 2010.

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

	Period				
	12 months ended	7 months ended	12 months ended	12 months ended	12 months ended
	31 July 2011	31 July 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007
NPAT (\$'000) <sup>(i)</sup>	(38,205)	(3,579)	(41,664)	(41,544)	5,749
EPS Basic (Cents) <sup>(ii)</sup>	(11.2)	(1.05)	(17.9)	(25.1)	3.2
Diluted EPS (Cents) <sup>(ii)</sup>	(11.2)	(1.05)	(17.9)	(25.1)	3.2
Total Dividends (\$'000)	Nil	Nil	Nil	Nil	13,023
Year End Share Price (\$)	0.07	0.22	0.22	0.18	0.65
Shares on Issue (No.)	340,997,682	340,997,682	340,997,682	165,498,841	165,498,841
Market Capitalisation (\$'000)	23,870	75,019	75,019	29,790	106,747

(i) NPAT from continuing operations

(ii) Basic & Diluted EPS from continuing operations

## Directors' Report (continued)

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### 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 plan (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.

Previously, during the period ended 31 July 2010, the performance measures were based on NPAT, inventory levels and product category earnings. In 2010 proportions applicable to each component and entitlement were determined according to the respective executive's level and area of responsibility. Performance against the objectives was determined and incentives and entitlements assessed against the audited financial results.

However, other than STI bonuses paid to Tim Anderson and Paul Wiegard, as a result of the Group's turnaround strategy and the revision to the STI plan, there were no STI plan bonuses paid, or payable, to any Group executive for the year ended 31 July 2011.

The terms of Tim Anderson and Paul Wiegard's STI bonuses are outlined below:

- In the event that Entertainment's earnings before interest, tax and amortisation expenses (EBITA) for the 12 months from 1 January 2010 to 31 December 2010 is reasonably expected to reach \$8 million, each individual will be eligible for a bonus of \$58,333.
- EBITA has the following agreed normalisations:
  - Subtract 20% of any change in balance sheet totals for capital expenditure and inventory compared to the prior period; and
  - Exclusion of all costs and expenses of auditing Entertainment's financial statements and any other non-operational costs charged by Head Office.

## Directors' Report (continued)

### Remuneration Report (continued)

#### Key management personnel compensation

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

12 months ended 31 July 2011	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 \$	Relocation benefits \$	Super-annuation \$	Other \$			Options / PSRs \$	Total \$	
<b>Directors</b>											
Shane Tanner	132,000	-	-	-	-	-	-	-	-	132,000	-
Stewart Downs	447,883	-	-	-	40,309	-	(729)	-	103,759	591,222	17.5%
Craig Mathieson	55,046	-	-	-	4,954	-	-	-	-	60,000	-
Nir Pizmony	372,985	-	-	-	33,569	-	239	-	-	406,793	-
James Flintoft	55,046	-	-	-	4,954	-	-	-	-	60,000	-
Stephen Heath <sup>(1)</sup>	44,037	-	-	-	3,963	-	-	-	-	48,000	-
	1,106,997	-	-	-	87,749	-	(490)	-	103,759	1,298,015	
<b>Executives</b>											
James Cody	303,599	-	-	-	27,324	-	197	-	45,577	376,697	12.1%
Tim Anderson	321,101	53,517	-	-	33,715	-	4,920	-	-	413,253	-
Paul Wiegard	321,101	53,517	-	-	33,715	-	4,920	-	-	413,253	-
Garry Mudford <sup>(3)</sup>	40,649	-	-	-	11,090	-	-	126,159	(22,542)	155,356	(14.5%)
Adam Kocks <sup>(2)</sup>	165,191	-	-	198,319	18,244	-	-	207,836	(16,573)	573,017	(2.89%)
	1,151,641	107,034	-	198,319	124,088	-	10,037	333,995	6,462	1,931,576	
	2,258,638	107,034	-	198,319	211,837	-	9,547	333,995	110,221	3,229,591	

(1) Mr S Heath – appointed to the Board effective 1 October 2010;

(2) Mr A Kocks – redundant effective 20 June 2011; and

(3) Mr G Mudford – redundant effective 2 September 2010.

For information on share options and performance share rights granted to key management personnel refer to pages 23 to 27.



# Directors' Report (continued)

## Remuneration Report (continued)

### Key management personnel compensation (continued)

7 months ended 31 July 2010	Short-term employee benefits				Post-employment benefits		Other long-term employee benefits	Termination benefits	Share-based payments	Total	Consisting of options / PSRs %
	Salary and fees	Cash Bonus	Non-monetary benefits	Relocation benefits	Super-annuation	Other			Options / PSRs		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
Directors											
Shane Tanner <sup>(1)</sup>	60,958	-	-	-	-	-	-	-	-	60,958	-
Graeme Yeomans <sup>(2)</sup>	53,458	-	-	-	4,811	-	-	-	-	58,269	-
Stewart Downs	269,471	-	-	-	9,299	-	1,940	-	55,100	335,810	16.5%
Craig Mathieson	39,935	-	-	-	3,594	-	-	-	-	43,529	-
Nir Pizmony	213,126	-	-	-	19,181	-	-	-	-	232,307	-
James Flintoft <sup>(3)</sup>	35,833	-	-	-	3,225	-	-	-	-	39,058	-
	672,781	-	-	-	40,110	-	1,940	-	55,100	769,931	
Executives											
Garry Mudford <sup>(4)</sup>	191,814	-	-	-	17,263	-	-	-	13,163	222,240	5.92%
Tim Anderson	190,932	-	-	-	12,338	-	28,311	-	-	231,581	-
Paul Wiegard	186,486	-	-	-	16,784	-	28,311	-	-	231,581	-
Adam Kocks <sup>(5)</sup>	111,470	-	-	155,510	11,633	-	(189)	-	10,735	289,159	3.71%
James Cody	176,481	-	-	-	9,365	-	-	-	15,109	200,955	7.52%
	857,183	-	-	155,510	67,383	-	56,433	-	39,007	1,175,516	
	1,529,964	-	-	155,510	107,493	-	58,373	-	94,107	1,945,447	

(1) Mr S Tanner- appointed Independent non executive director effective 19 March 2010 and Chairman effective 21 May 2010;

(2) Mr G Yeomans – resigned effective 21 May 2010;

(3) Mr J Flintoft – appointed independent non-executive director effective 15 January 2010;

(4) Mr G Mudford – appointed General Manager TLM effective 10 August 2009, redundant 2 September 2010; and

(5) Mr A Kocks – redundant effective 20 June 2011.

## 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

During the financial year, the following share-based payment arrangements were in existence:

Share-based payment	Series	Grant date	Expiry date	Grant date average fair value	Vesting date	Performance conditions
Share option	33	20/03/2008	02/09/2013	\$0.115	31/08/2011 <sup>1</sup>	2
Share option	35	21/08/2009	10/08/2014	\$0.072	21/08/2012	3
Share option	36	21/08/2009	10/08/2014	\$0.072	N/A <sup>2</sup>	3
Share option	37	01/04/2010	01/04/2015	\$0.119	09/11/2011 & 09/11/2012	4
Share option	38	01/04/2010	01/04/2015	\$0.119	N/A <sup>3</sup>	4
EPSR	35	03/07/2008	02/09/2013	\$0.390	N/A <sup>3</sup>	2

(1) Share option series 33 failed to vest on 31 August 2011;

(2) Share option series 36 lapsed on 2 September 2010; and

(3) EPSR series 35 and share option series 38 lapsed on 20 June 2011

The performance conditions attached to the Company's share options and EPSR's are outlined below:

## Remuneration Report (continued)

### Share Options - Performance condition 2 (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 average annual diluted earnings per share (EPS) growth rate over a three year period, is required to be 11%pa;
- (b) for the remaining 50% to vest the average annual diluted EPS growth rate over a three year period, is required to be 15%pa;
- (c) if the average annual growth in diluted EPS growth over the three year period, is between 11%pa and 15%pa, 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(l).

### Share Options - Performance condition 3 (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 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.

## Directors' Report (continued)

### Remuneration Report (continued)

#### Share Options - Performance condition 4 (type 4)

Type 4 options are identical to type 3 options in every regard, except for the following exercise price and performance hurdles:

- § 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 20.7 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 27 cents;
  - b) in year 2 the share price to be no less than 35 cents; and
  - c) in year 3 the share price to be no less than 45 cents.

#### EPSR – Performance Condition 2 (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% pa and 15%pa, 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.

The following table summarises the value of options/EPsRs granted, exercised or lapsed during the year to directors and executives:

	Options / EPsRs Granted	Options / EPsRs Exercised	Options / EPsRs Lapsed	Value of options and / or EPsRs included in remuneration for the period	Percentage of total remuneration for the period that consists of options / EPsRs
	Value at grant date (i)	Value at exercise date	Value at time of lapse (ii)		
	\$	\$	\$	\$	%
Garry Mudford	-	-	71,820	(22,542)	(14.5%)
Adam Kocks	-	-	95,088	(16,573)	(2.89%)

- (i) The value of options/EPsRs granted during the year is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards.
- (ii) The value of options/EPsRs lapsing during the year due to the failure to satisfy a vesting condition is determined assuming the vesting condition had been satisfied.

## Directors' Report (continued)

### Remuneration Report (continued)

#### Shares provided on exercise of remuneration options

Details of ordinary shares in the Company, issued during the current year and prior period, as a result of the exercise of remuneration options to each director of Funtastic Limited and each of the key management personnel of the Group 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 year or preceding period.

#### Option holdings

The number of options over ordinary shares in the Company held during the financial year/period by each director of Funtastic Limited and each of the key management personnel of the Group, including their related entities, are set out below.

12 months ended 31 July 2011	Balance at the start of the year	Granted during the period 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>						
Shane Tanner	-	-	-	-	-	-
Craig Mathieson	-	-	-	-	-	-
James Flintoft	-	-	-	-	-	-
Stephen Heath	-	-	-	-	-	-
<b>Executive Directors</b>						
Stewart Downs	4,200,000	-	-	-	4,200,000	-
Nir Pizmony	-	-	-	-	-	-
<b>Executives</b>						
James Cody	1,000,000	-	-	-	1,000,000	-
Tim Anderson	-	-	-	-	-	-
Paul Wiegard	-	-	-	-	-	-
Garry Mudford	1,000,000	-	-	(1,000,000)	-	-
Adam Kocks	750,000	-	-	(750,000)	-	-

## Directors' Report (continued)

### Remuneration Report (continued)

7 months ended 31 July 2010	Balance at the start of the period	Granted during the period as remuneration	Exercised during the period	Other changes during the period i.e. forfeited/lapsed	Balance at the end of the period	Vested and exercisable at the end of the period
Non-Executive Directors						
Shane Tanner	-	-	-	-	-	-
Graeme Yeomans	-	-	-	-	-	-
Craig Mathieson	-	-	-	-	-	-
James Flintoft	-	-	-	-	-	-
Executive Directors						
Stewart Downs	4,200,000	-	-	-	4,200,000	-
Nir Pizmony	-	-	-	-	-	-
Executives						
James Cody	-	1,000,000	-	-	1,000,000	-
Tim Anderson	-	-	-	-	-	-
Paul Wiegard	-	-	-	-	-	-
Garry Mudford	1,000,000	-	-	-	1,000,000	-
Adam Kocks	-	750,000	-	-	750,000	-

## Directors' Report (continued)

### Remuneration Report (continued)

#### Performance Share Right holdings

The number of Performance Share Rights held during the financial year/period by each of the key management personnel of the Group, including their related entities, is set out below.

12 months ended 31 July 2011	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	-	-	-	-	-	-
James Cody	-	-	-	-	-	-
Tim Anderson	-	-	-	-	-	-
Paul Wiegard	-	-	-	-	-	-
Garry Mudford <sup>(2)</sup>	-	-	-	-	-	-
Adam Kocks <sup>(1)</sup>	20,000	-	-	(20,000)	-	-

7 months ended 31 July 2010	Balance at the start of the period	Granted during the period as remuneration	Exercised during the period	Other changes during the period i.e. forfeited/lapsed	Balance at the end of the period	Vested and exercisable at the end of the period
Executives						
Stewart Downs	-	-	-	-	-	-
James Cody	-	-	-	-	-	-
Tim Anderson	-	-	-	-	-	-
Paul Wiegard	-	-	-	-	-	-
Garry Mudford <sup>(2)</sup>	-	-	-	-	-	-
Adam Kocks <sup>(1)</sup>	20,000	-	-	-	20,000	-

(1) Mr A Kocks – redundant effective 20 June 2011; and

(2) Mr G Mudford – appointed General Manager Toys & Sporting effective 10 August 2009, redundant effective 2 September 2010.

## Directors' Report (continued)

### Remuneration Report (continued)

#### Share holdings

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

12 months ended 31 July 2011	Balance at the start of the period	Received during the period on the exercise of options	Shares purchased during the period	Received as consideration on acquisition of business	Shares sold during the period	Balance at the end of the period or date of retirement / resignation
Directors						
Shane Tanner	200,000	-	-	-	-	200,000
Stewart Downs	1,642,890	-	100,000	-	-	1,742,890
Craig Mathieson	91,031,312	-	5,781,086	-	-	96,812,398
Nir Pizmony	16,855,742	-	-	-	(2,736,054)	14,119,688
James Flintoft	1,350,848	-	-	-	-	1,350,848
Executives						
James Cody	-	-	-	-	-	-
Tim Anderson	1,555,870	-	-	-	-	1,555,870
Paul Wiegard	1,555,870	-	-	-	-	1,555,870
Adam Kocks <sup>(1)</sup>	30,000	-	-	-	-	30,000
Garry Mudford <sup>(2)</sup>	250,000	-	-	-	-	250,000
7 months ended 31 July 2010	Balance at the start of the period	Received during the period on the exercise of options	Shares purchased during the period	Received as consideration on acquisition of business	Shares sold during the period	Balance at the end of the period or date of retirement / resignation
Directors						
Shane Tanner	-	-	200,000	-	-	200,000
Graeme Yeomans	500,000	-	-	-	-	500,000
Stewart Downs	1,642,890	-	-	-	-	1,642,890
Craig Mathieson	87,880,947	-	3,150,365	-	-	91,031,312
Nir Pizmony	16,855,742	-	-	-	-	16,855,742
James Flintoft	1,350,848	-	-	-	-	1,350,848
Executives						
James Cody	-	-	-	-	-	-
Tim Anderson	1,555,870	-	-	-	-	1,555,870
Paul Wiegard	1,555,870	-	-	-	-	1,555,870
Adam Kocks <sup>(1)</sup>	30,000	-	-	-	-	30,000
Garry Mudford <sup>(2)</sup>	250,000	-	-	-	-	250,000

(1) Mr A Kocks – redundant effective 20 June 2011; and

(2) Mr G Mudford – appointed General Manager Toys & Sporting effective 10 August 2009, redundant effective 2 September 2010.



## 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 Limited Employee Performance Share Rights Plan.

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

#### Shane Tanner – Chairman & Independent Non-executive Director

- § Term of the agreement - full-time permanent and no specific term.
- § Payment of a termination benefit on early termination by the employer is not applicable.

#### Stewart Downs – Managing Director & Chief Executive Officer

- § Term of the agreement - full-time permanent and no specific term.
- § Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 6 months' base salary.
- § Notice period 6 months.

#### Craig Mathieson – Non-executive Director

- § Term of the agreement - full-time permanent and no specific term.
- § Payment of a termination benefit on early termination by the employer is not applicable.

#### Nir Pizmony – Executive Director

- § Term of the agreement - full-time permanent and no specific term.
- § Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 6 months' base salary.
- § Notice period 6 months.

#### Stephen Heath – Non-executive Director – (appointed 1 October 2010)

- § Term of the agreement - full-time permanent and no specific term.
- § Payment of a termination benefit on early termination by the employer is not applicable.

#### Linda Norquay – Non-executive Director – (appointed 2 September 2011)

- § Term of the agreement - full-time permanent and no specific term.
- § Payment of a termination benefit on early termination by the employer is not applicable.

#### James Flintoft – Non-executive Director – (resigned 2 September 2011)

- § Term of the agreement - full-time permanent and no specific term.
- § Payment of a termination benefit on early termination by the employer is not applicable.

#### Garry Mudford - General Manager TLM – (redundant 2 September 2010)

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

- § Term of the agreement - full-time permanent and no specific term.
- § 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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### Remuneration Report (continued)

#### Service Agreements (continued)

##### Adam Kocks - General Manager Asia – (redundant 20 June 2011)

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

##### Tim Anderson – Joint General Manager Entertainment

- § Term of the agreement – full-time permanent and no specific term.
- § Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months base salary.
- § Notice period 12 months.

##### Paul Wiegard – Joint General Manager Entertainment

- § Term of the agreement – full-time permanent and no specific term.
- § Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months base salary.
- § Notice period 12 months.

#### 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 39 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*.

The directors are of the opinion that the services as disclosed in note 39 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 Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 32 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.

On behalf of the Directors,



Shane Tanner

Chairman of the Board

Melbourne

30 September 2011

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

30 September 2011

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.

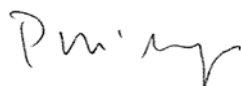
As lead audit partner for the audit of the financial statements of Funtastic Limited for the financial year ended 31 July 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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



Patrick McLay  
Partner  
Chartered Accountants

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

### **Report on the Financial Report**

We have audited the accompanying financial report of Funtastic Limited, which comprises the balance sheet as at 31 July 2011, 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 35 to 105.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply 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. Those 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 judgment, 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 of the financial report that gives a true and fair view, 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.

#### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Funtastic Limited, would be in the same terms if given to the directors as at the time of this auditor's report

### *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 consolidated entity's financial position as at 31 July 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

### *Material Uncertainty Regarding Continuation as a Going Concern*

Without qualification to the opinion expressed above, attention is drawn to Note 2 in the financial statements which indicates that the consolidated entity incurred a net loss of \$38,205,000 during the year ended 31 July 2011 and, as of that date, the consolidated entity's current liabilities exceeded its current assets by \$46,505,000. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's and the company's ability to continue as going concerns and therefore, the consolidated entity and the company may be unable to realise their assets and discharge their liabilities in the normal course of business.

### *Report on the Remuneration Report*

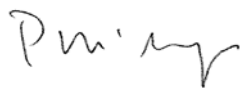
We have audited the Remuneration Report included in pages 18 to 31 of the directors' report for the period ended 31 July 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Opinion*

In our opinion the Remuneration Report of Funtastic Limited for the period ended 31 July 2011, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Patrick McLay  
Partner  
Chartered Accountants  
Melbourne, 30 September 2011

## Directors' Declaration

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The directors declare that:

- (a) in the directors' opinion, and for the reasons outlined in note 2, 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) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements;
- (c) in the directors' opinion, the attached financial statements and Notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group; and
- (d) the directors have been given the declarations required by section 295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418 and has entered into a deed of cross guarantee as contemplated in that order. 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 33 to the financial statements will, as a Group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the Directors,



Shane Tanner  
Chairman of the Board

Melbourne  
30 September 2011

## Consolidated Statement of Comprehensive Income for the Year Ended 31 July 2011

		12 months ended 31 July 2011 \$'000	7 months ended 31 July 2010 \$'000
	Note		
<i>Continuing operations</i>			
Revenue	5	183,052	111,052
Cost of goods sold		(131,902)	(72,640)
Gross profit		51,150	38,412
Warehouse and distribution expenses		(15,722)	(10,103)
Marketing and selling expenses		(30,753)	(18,535)
Administration expenses		(17,562)	(8,290)
Impairment and restructuring costs	6	(16,171)	-
Earnings before interest, taxation, amortisation and depreciation expenses (EBITDA)		(29,058)	1,484
Finance costs	9	(7,397)	(3,594)
Depreciation and amortisation expenses	7	(1,841)	(1,113)
Loss before income tax	7	(38,296)	(3,223)
Income tax benefit/(expense)	8	91	(356)
Loss for the year/period from continuing operations		(38,205)	(3,579)
<i>Other comprehensive income</i>			
Exchange differences arising on translation of foreign operations		82	35
Loss on cash flow hedges taken to equity		(2,039)	(70)
Other comprehensive income for the year/period (net of tax)		(1,957)	(35)
Total comprehensive income attributable to members of Funtastic		(40,162)	(3,614)
Earnings per share		Cents	Cents
From continuing operations:			
Basic (cents per share)	29	(11.2)	(1.05)
Diluted (cents per share)	29	(11.2)	(1.05)

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

## Consolidated Balance Sheet as at 31 July 2011

	Note	31 July 2011 \$'000	31 July 2010 \$'000
Current Assets			
Cash	34	1,948	972
Trade and other receivables	10	27,254	38,563
Inventories	11	22,162	29,469
Other	12	18,539	21,236
Other financial assets	14	-	4,835
Total Current Assets		69,903	95,075
Non-Current Assets			
Property, plant and equipment	15	2,629	2,948
Goodwill	16	68,054	73,608
Other intangibles	17	3,335	2,822
Deferred tax assets	8	12,520	14,374
Other financial assets	18	-	1,606
Total Non-Current Assets		86,538	95,358
Total Assets		156,441	190,433
Current Liabilities			
Trade payables	20	14,202	11,675
Borrowings	21	80,859	-
Provisions	22	6,734	3,684
Deferred purchase consideration	23	1,320	2,367
Other	24	9,524	11,464
Current tax liabilities	13	172	97
Other financial liabilities	25	3,597	971
Total Current Liabilities		116,408	30,258
Non-Current Liabilities			
Borrowings	21	-	78,876
Provisions	22	1,440	147
Deferred tax liabilities	8	4,410	6,775
Other	24	985	1,117
Total Non-Current Liabilities		6,835	86,915
Total Liabilities		123,243	117,173
Net Assets		33,198	73,260
Equity			
Issued capital	26	159,377	159,377
Accumulated losses	27	(124,169)	(85,964)
Reserves	28	(2,010)	(153)
Total Equity		33,198	73,260

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



## Consolidated Statement of Changes in Equity for the Year Ended 31 July 2011

	Share Capital \$'000	Accumulated Losses \$'000	Foreign Currency Translation Reserve \$'000	Equity- settled Employee Benefits Reserve \$'000	Cash Flow Hedging Reserve \$'000	Total \$'000
Balance at 1 January 2010	159,377	(82,385)	(1,083)	1,237	(409)	76,737
Loss for the period	-	(3,579)	-	-	-	(3,579)
Other comprehensive (loss)/gain	-	-	35	-	(70)	(35)
Total comprehensive income	-	(3,579)	35	-	(70)	(3,614)
Recognition of share-based payments	-	-	-	137	-	137
Balance at 31 July 2010	159,377	(85,964)	(1,048)	1,374	(479)	73,260
Balance at 1 August 2010	159,377	(85,964)	(1,048)	1,374	(479)	73,260
Loss for the period	-	(38,205)	-	-	-	(38,205)
Other comprehensive (loss)/gain	-	-	82	-	(2,039)	(1,957)
Total comprehensive income	-	(38,205)	82	-	(2,039)	(40,162)
Recognition of share-based payments	-	-	-	100	-	100
Balance at 31 July 2011	159,377	(124,169)	(966)	1,474	(2,518)	33,198

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

## Consolidated Statement of Cash Flows for the Year Ended 31 July 2011

	Note	12 months ended 31 July 2011 \$'000	7 months ended 31 July 2010 \$'000
Cash Flows from Operating Activities			
Receipts from customers		212,667	126,044
Payments to suppliers and employees		(205,491)	(129,144)
<i>Cash generated from operations</i>		<u>7,176</u>	<u>(3,100)</u>
Income taxes received/(paid)		162	(233)
Interest and other costs of finance paid		(7,357)	(2,786)
Net Cash Outflow from Operating Activities	34	<u>(19)</u>	<u>(6,119)</u>
Cash Flows from Investing Activities			
Interest received		134	56
Payments for acquisition of businesses		-	(10,426)
Payments for property, plant and equipment		(859)	(1,118)
Payments for other intangible assets		(1,537)	(228)
Proceeds from sale of property, plant and equipment		10	149
Proceeds from sale of business		1,521	-
Net Cash Outflow from Investing Activities		<u>(731)</u>	<u>(11,567)</u>
Cash Flows from Financing Activities			
Proceeds from borrowings		1,662	16,764
Borrowings transaction costs		-	(300)
Net Cash Inflow from Financing Activities		<u>1,662</u>	<u>16,464</u>
Net Increase/(Decrease) in Cash Held		912	(1,222)
Cash and cash equivalents at the beginning of the year/period		972	2,191
Effects of exchange rate changes on the balance of cash held in foreign currencies		64	3
Cash and cash equivalents at the end of the year/period	34	<u>1,948</u>	<u>972</u>

Above statement of cash flows 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 following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements of the Group.

- AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'
- AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions'
- AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'

The following standards have been adopted in advance of the effective date of 1 January 2011:

- Amendments to AASB 7 'Financial Instruments: Disclosure'
- AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'.

The adoption of these new and revised Standards and Interpretations did not have any material financial impact on the amounts recognised in the financial statements of the Group, however they have impacted the disclosures presented in the financial statements. At the date of authorisation of the financial report, the following relevant Standards and Interpretations were issued but not yet effective:

Standard/Interpretation	Effective for annual reporting period beginning on or after	Expected to be initially applied in the financial year ending
AASB 124 'Related Party Disclosures' (revised December 2009), AASB 2009-12 'Amendments to Australian Accounting Standards'	1 January 2011	31 July 2012
AASB 9 'Financial Instruments', AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	31 July 2014
AASB 2010-5 'Amendments to Australian Accounting Standards'	1 January 2011	31 July 2012
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	31 July 2013
AASB 10 'Consolidated Financial Statements'	1 January 2013	31 July 2014
AASB 11 'Joint Arrangements'	1 January 2013	31 July 2014
AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013	31 July 2014
AASB 127 'Separate Financial Statements' (2011)	1 January 2013	31 July 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011)	1 January 2013	31 July 2014
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'	1 January 2013	31 July 2014

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

## NOTE 2: Significant accounting policies

### Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001 (Clth)*, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 30 September 2011.

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

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

The prior period covers a 7 month period and is therefore not comparable to the current period.

### Going concern basis

The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

For the reasons described below, there is significant uncertainty whether the Group will continue as a going concern:

§ The Group made a loss for the year of \$38,205,000 (2010: a loss for the seven month period of \$3,579,000) and as at 31 July 2011 has net assets of \$33,198,000 (2010: \$73,260,000) and net current liabilities of \$46,505,000 (2010: net current assets of \$64,817,000).

§ Whilst management has prepared forecasts that show that the Group can continue to operate as a going concern for the foreseeable future, there is a material uncertainty in respect of the existing challenging retail conditions and the likely range of impacts that this may have upon the forecast trading of the Group.

§ As foreshadowed in the Appendix 4D for the half-year ended 31 January 2011, the Group has, again successfully, extended the maturity date of its financing arrangements to 31 August 2013. This documentation was finalised in September 2011 and in accordance with AASB 101 Presentation of Financial Statements, the Group is required to present its total bank borrowings of \$80,859,000 as current as at 31 July 2011. The Group is now required to comply with certain financial covenants and undertakings, which include repayment of its commercial bills facility and precludes the payment of dividends during the facility period.

The ability of the Group and the Company to continue as going concerns is dependent on their ability to generate sufficient funds from their operating activities and operate within the requirements of their banking facilities, which includes repayment of borrowings totalling \$8,000,000 within the 12 months from the date of approval of these financial statements.

At the date of this report, the Directors have considered the above factors and are confident that the Group and the Company will be able to continue as going concerns for the following reasons:

§ Management has prepared and the Directors have reviewed and approved detailed financial forecasts for the 12 months ending 30 September 2012. These forecasts include the requirement for the Group to reduce its commercial bill facility in line with an agreed debt amortisation schedule – with this in mind, the Group repaid \$2,000,000 of its commercial bills with its senior lender on 31 August 2011. The forecasts incorporate the turnaround strategy previously announced to the market, whereby the Group has been reviewing the capital requirements of the business, the gearing of its balance sheet and the assessment of non-core assets with a view to reducing the level of external borrowings within the Group.

§ The Directors have considered the existing challenging retail conditions and the likely range of impacts that this may have upon the forecast trading of the Group. This process has included applying appropriate sensitivities to the Group's sales and cash forecasts and assessing the resultant impact on funding headroom and compliance with all financial covenants. The range of impacts has been appropriately considered and reflected within the Group's forecasts and the Directors' assessment of going concern.

§ The Group has the continuing support of its bankers and has successfully extended its financing arrangements to 31 August 2013. Had the Group secured this extension on or before 31 July 2011, \$70,859,000 of its financing facilities would have been presented as non-current and \$10,000,000 presented as current in this annual report. The Group would then have had a \$24,354,000 net current asset surplus.

However, notwithstanding these reasons, in the event that:

- the Group is not able to meet its trading and cash flow forecasts; and/or
- the Group is not able to satisfy the financial covenants and undertakings imposed on it by its bankers, including the repayment of debt,

there is material uncertainty whether the Group and the Company will be able to continue as going concerns and, therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include any adjustments that may be appropriate relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Group and the Company not continue as going concerns.

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.

#### (b) Income Tax

##### (i) Current tax

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

##### (ii) Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Assets and liabilities are recognised for temporary differences at the tax rates expected to apply

when the assets are recovered or liabilities are settled, based on those tax rates which are enacted, or substantively enacted, for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

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

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

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

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

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

##### (iv) Tax Consolidation

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

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated Group, amounts are recognised as payable to or receivable by the company and each member of the Group in relation to

the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated Group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 8 to the financial statements.

##### (c) Foreign currency translation

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

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity

operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Funtastic Limited's functional and presentation currency.

(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 third 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) *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 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 cost of improvements to or on leasehold properties is amortised over the estimated useful life of the improvement to the Group.

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:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST. 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) 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.

#### (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) *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.

##### (iv) *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

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree.

Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- § deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 *Income Taxes* and AASB 119 *Employee Benefits* respectively;
- § liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with AASB 2 *Share-based Payment*; and
- § assets (or disposal Groups) that are classified as held for sale in accordance with AASB 5 *Noncurrent Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

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

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. Amortisation of the Group's intangible assets is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

#### (r) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. 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 35 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.

#### *Cash flow hedges*

The Group designates certain hedging instruments, derivatives in respect of foreign currency, as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 35 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.

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 statement of comprehensive income.

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

All financial assets are recognised and derecognised on trade date where the purchase or sale of financial asset 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, plus transaction costs, except for those financial assets classified as fair value through profit or loss (FVTPL) which are initially measured at fair value.

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- § it has been acquired principally for the purpose of selling it in the near term; or
- § on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- § it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the statement of comprehensive income. Fair value is determined in the manner described in note 35.

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 Group

##### § *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 35.

##### § *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

The Group enters into royalty contracts with key suppliers. The terms of the royalty agreements require minimum level of royalty payments to be offset against the minimum guarantees paid at the start of the contract. An onerous contract is deemed to exist for the Group 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. 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 statement of comprehensive income.

(x) Impairment of tangible and intangible assets (other than goodwill)

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which

the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

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

In the application of the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates 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 following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

**§ 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 16 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 12), on an annual basis. The Group takes into account current and projected market sell through in assessing the recoverability of royalty commitments.

Following a weak trading performance during the year, which manifested itself within the underlying profitability of numerous licenses and 'titles' held by the Group, management has identified that the recoverability of its prepaid royalties is materially less than their carrying value. This has resulted in the recognition of prepaid royalties impairment loss of \$6,077,000.

**§ 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.

**§ Recoverability of inventory**

As outlined in note 2(h) inventories are stated at the lower of cost and net realisable value (NRV), where NRV represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale. The Group periodically assesses whether the NRV of its inventories is reasonable in light of changing market conditions, specifically the recent softening of the retail industry. Whilst the Group has provided to recognise the best estimate for the amount for which its inventory will be realised, the final amounts will be subject to the prevailing market conditions and may differ from the amounts provided.

#### NOTE 4: Segment information

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
- International
- Entertainment
- Other

The Toys and Lifestyle Merchandise reportable segment distributes licensed toys, sporting equipment, nursery equipment and confectionary. The International reportable segment designs and sources unique product offerings for worldwide distribution. The Entertainment reportable segment distributes licensed films and merchandise. The Other reportable segment incorporates all other trading operations.

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

	Note	Revenue		Segment profit/(loss)	
		12 months ended	7 months ended	12 months ended	7 months ended
		31 July 2011 \$'000	31 July 2010 \$'000	31 July 2011 \$'000	31 July 2010 \$'000
<i>Continuing operations</i>					
Toys and Lifestyle Merchandise		108,822	67,285	(2,254)	6,567
International		16,350	4,856	(721)	(877)
Entertainment		52,512	35,363	223	3,779
Other		3,656	2,462	(9)	(270)
		181,340	109,966	(2,761)	9,199
Central administration		-	-	(12,054)	(7,715)
Finance costs		-	-	(7,397)	(3,594)
Depreciation and amortisation		-	-	(1,841)	(1,113)
Other revenue		1,712	1,086	-	-
Impairment & restructuring	6	-	-	(14,243)	-
Continuing segment revenue and loss before income tax		183,052	111,052	(38,296)	(3,223)
Income tax benefit/(expense)		-	-	91	(356)
Consolidated segment revenue and loss after tax for the year/period		183,052	111,052	(38,205)	(3,579)

#### 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	
	12 months ended	7 months ended
	31 July	31 July
	2011	2010
	\$'000	\$'000
Australia	163,211	104,138
New Zealand	3,491	2,074
Hong Kong	16,350	4,840
	183,052	111,052

#### Information about major customers

Included in revenues of Toys and Lifestyle Merchandise of \$108,822,000 (2010: \$67,285,000), are revenues of approximately \$87,245,000 (2010: \$48,688,000), which arose from sales to the Group's four largest customers. Included in revenues of Entertainment of \$52,512,000 (2010: \$35,363,000) are revenues of approximately \$27,431,000 (2010: \$19,987,000) which arose from sales to the Group's four largest customers.

#### NOTE 5: Revenue

The following is an analysis of the Group's revenue for the year/period from continuing operations.

	Note	12 months ended 31 July 2011 \$'000	7 months ended 31 July 2010 \$'000
<i>Revenue from the sale of goods</i>			
Gross revenue		203,470	122,473
Less settlement discounts and rebates		(22,130)	(12,507)
		181,340	109,966
Interest from bank deposits		39	-
Interest from convertible notes		96	72
Commissions received		736	392
Other		841	622
		1,712	1,086
		183,052	111,052



# NOTE 6: Impairment and restructuring costs

The following impairment and restructuring costs are included within the loss from continuing operations in the statement of comprehensive income for the twelve months ended 31 July 2011 (2010: 7 months ended 31 July 2010):

## Continuing Operations

	12 months ended 31 July 2011 \$'000	7 months ended 31 July 2010 \$'000
<i>Impairment</i>		
Goodwill impairment:		
Entertainment	1,501	-
International	3,006	-
Total Goodwill impairment	4,507	-
Other		
Other current financial assets	6,147	-
Distribution agreements	857	-
Total other impairment	7,004	-
Total Impairment	11,511	-
<i>Restructuring Costs</i>		
Corporate redundancy costs and other termination benefits	1,384	-
Other Corporate restructuring costs	3,276	-
Total Restructuring Costs	4,660	-
Total impairment and restructuring costs	16,171	-

## Goodwill Impairment – Entertainment

In accordance with Group accounting policy, the Group assessed the goodwill attached to the division for impairment. The recoverable amount of the 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 18.6% 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 Entertainment business of \$1,501,000.

## Goodwill Impairment – International

In accordance with Group accounting policy, the Group assessed the goodwill attached to the division for impairment. The recoverable amount of the 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 19.6% 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 International business of \$3,006,000.

## NOTE 6: Impairment and restructuring costs (continued)

## Impairment – Other current financial assets

In accordance with Group accounting policy, management ensures that the Group's financial assets are stated at fair value.

During the prior period, the Group commenced legal proceedings to recover unpaid debts resulting from the sale of its apparel business in August 2010. The proceedings were issued against Australian Horizons Trading Pty Limited (AHT) and Jeffrey Moss as guarantor of certain AHT obligations under the 2010 sale of business agreement (SBA). The Group has made a claim against AHT and Jeffrey Moss. At the time of the sale of the business, the Group booked an asset based on the expected deferred consideration of the sale of the business – this amounts to \$6,147,000 as at 31 July 2011.

Whilst the Group will continue to pursue full settlement, given the passage of time the Directors consider it prudent to now record a full impairment loss on the outstanding receivable and accordingly a \$6,147,000 impairment loss has been charged to profit or loss.

## Impairment – Distribution agreements

A distribution agreement was assessed for recoverability during the year and management identified that, in light of weak sales and resulting future economic benefits, the agreement's recoverable amount was nil, resulting in an impairment loss of \$857,000.

## Restructuring costs

As discussed in detail within the Directors' Report, the Group continues with the next phase of its turnaround strategy. During the year, the Group incurred costs of \$1,384,000 in relation to redundancies and other termination benefits; in order to complete this phase of the Turnaround, the Group believes an additional \$3,276,000 will be required.



## NOTE 7: Loss for the year/period

Loss for the year/period from continuing operations has been arrived at after charging (crediting):

*Continuing Operations*

	12 months ended 31 July 2011 \$'000	7 months ended 31 July 2010 \$'000
<i>Impairment losses on financial assets</i>		
Impairment loss recognised on trade receivables (note 10)	972	97
<i>Depreciation and amortisation expense</i>		
Depreciation of plant & equipment (note 15)	702	786
Amortisation of leasehold improvements (note 15)	285	145
Amortisation of other intangible assets (note 17)	761	128
Amortisation of product development costs	93	54
Total depreciation and amortisation expense	1,841	1,113
<i>Research and development costs expensed as incurred</i>	509	519
<i>Employee benefits expense</i>		
Post employment benefits:		
Defined contribution plans	1,454	995
Share-based payments:		
Equity-settled share-based payments	100	137
Termination benefits (excluding redundancy costs – refer note 6)	947	325
Other employee benefits	20,644	15,180
Total employee benefits expense	23,145	16,637

## NOTE 8: Income tax

	12 months ended 31 July 2011 \$'000	7 months ended 31 July 2010 \$'000
(a) Income tax expense		
Tax expense/(benefit) comprises:		
Current tax expense in respect of the current year/period	210	519
Deferred tax expense/(benefit) relating to the origination and reversal of temporary differences	765	452
Deferred tax reclassified from equity to profit or loss	(1,066)	(615)
	(91)	356
Total tax (benefit)/expense relating to continuing operations	(91)	356
(b) Income Tax recognised in profit or loss		
The (benefit)/expense for the period/year can be reconciled to the accounting loss as follows:		
Loss from continuing operations	(38,296)	(3,223)
Tax (benefit)/expense at the Australian tax rate of 30% (2010: 30%)	(11,489)	(967)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	1,352	-
Expenses that are not deductible in determining taxable loss	73	121
Revenue tax losses not brought to account	10,434	-
Other (including temporary differences)	(461)	1,202
Income tax (benefit)/expense recognised in profit or loss	(91)	356

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 and Hong Kong where the corporate tax rates are 30% and 16.5% respectively.

# Notes to the Financial Statements

31 July 2011

## NOTE 8: Income tax (continued)

	12 months ended 31 July 2011 \$'000	7 months ended 31 July 2010 \$'000
(c) Amounts recognised directly in equity		
Deferred Tax Asset/(Liability):		
Financial instruments treated as cash flow hedges	1,079	13
(d) Current tax balances		
Current tax assets and liabilities		
Income tax receivable from tax office		
Other	-	-
Income tax payable to tax office		
Other	172	97
(e) Deferred tax balances		
Deferred tax assets comprises:		
Revenue tax losses	4,641	9,826
Temporary differences	7,879	4,548
	12,520	14,374
Deferred tax liability comprises:		
Temporary differences	4,410	6,775
Net deferred tax asset	8,110	7,599
Deferred tax assets/(liabilities) arise from the following:		
Provisions – receivables	1,090	909
Provisions – employee benefits	469	551
Property, plant and equipment	-	165
Provisions - restructuring	951	-
Accruals	9	82
Prepaid royalties	(4,387)	(6,775)
Inventory	2,194	1,686
Revenue tax losses	4,641	9,826
Other financial assets	1,504	-
Other provisions	351	388
Foreign exchange	(24)	453
Cash flow hedges	1,079	13
Other	233	301
	8,110	7,599

## NOTE 8: Income tax (continued)

	12 months ended 31 July 2011 \$'000	7 months ended 31 July 2010 \$'000
Movements:		
Opening balance as at 1 August (2010: 1 January)	7,599	7,481
Credited to the income statement	(765)	(497)
Charged to equity	1,066	615
Other	210	-
Closing balance as at 31 July	8,110	7,599

## (f) Unrecognised deferred tax assets

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognised are attributable to the following:

Tax losses (revenue in nature)	10,434	-
Tax losses (capital in nature)	-	-
Deductible temporary differences	-	-
	10,434	-

## 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 33.

*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 July 2011

## NOTE 9: Finance costs

	12 months ended 31 July 2011 \$'000	7 months ended 31 July 2010 \$'000
<i>Continuing operations</i>		
Interest on bank overdrafts and loans	7,125	3,431
Interest on deferred purchase consideration	-	146
	<u>7,125</u>	<u>3,577</u>
Fair value losses on interest rate swaps designated as cash flow hedges transferred from equity	272	17
	<u>7,397</u>	<u>3,594</u>

## NOTE 10: Current assets – Trade and other receivables

	31 July 2011 \$'000	31 July 2010 \$'000
Trade receivables <sup>(1), (2)</sup>	34,560	47,671
Allowance for doubtful debts	(1,356)	(1,638)
Allowance for credit notes, rebates and settlement discounts	(6,676)	(8,229)
	<u>26,528</u>	<u>37,804</u>
Other receivables	726	759
	<u>27,254</u>	<u>38,563</u>

(1) The average credit period on sales of goods is 62 days (2010: 63 days). No interest is charged on the trade receivables.

(2) During the prior period, the Group commenced legal proceedings to recover unpaid debts resulting from the sale of its apparel business in August 2009. The proceedings were issued against Australian Horizons Trading Pty Limited (AHT) and Jeffrey Moss as guarantor of certain AHT obligations under the 2009 sale of business agreement (SBA). The Group has made a claim against AHT and Jeffrey Moss. At the time of the sale of the business, the Group booked an asset based on the expected deferred consideration of the sale of the business – this amounts to \$6,147,000 as at 31 July 2011.

As at 31 July 2010, trade receivables of \$47,671,000 included \$1,322,000 of the expected \$6,147,000 deferred consideration which has been reclassified to other current financial assets during the year (refer note 14). No impairment loss had previously been provided against the \$1,322,000 receivable. However, during the year, and since the half-year, given the passage of time the Directors believe it prudent to recognise a full impairment loss against the \$6,147,000 (refer note 14).

# NOTE 10: 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 \$8,960,027 (2010:\$2,361,922) 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 weighted average number of days of the receivables past due but not impaired is 11 days (2010: 41 days).

As at 31 July 2010, the \$1,322,000 trade receivables in relation to the AHT and Jeffrey Moss legal proceedings were included in the Group's trade receivables past due at reporting date of \$2,361,922, none of which was provided for as at 31 July 2010 (refer note 14).

The Group reviews 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 reviews the provision for credit notes, rebates and settlement discounts on an ongoing basis and make allowance 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 \$180,971 (2010: \$297,086) 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

	Doubtful debts \$'000	Rebates, credit notes & settlement discounts \$'000	Total \$'000
12 months ended 31 July 2011			
Balance at beginning of year	(1,638)	(8,229)	(9,867)
Utilised	1,254	6,725	7,979
Reversed	-	445	445
Provisions raised	(972)	(5,617)	(6,589)
Balance at end of the year	(1,356)	(6,676)	(8,032)
7 months ended 31 July 2010			
Balance at beginning of period	(1,700)	(11,257)	(12,957)
Utilised	159	10,713	10,872
Provisions raised	(97)	(7,685)	(7,782)
Balance at end of the period	(1,638)	(8,229)	(9,867)

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 July 2011

## NOTE 11: Current assets – Inventories

	31 July 2011 \$'000	31 July 2010 \$'000
Finished goods	22,162	29,469

The cost of inventories recognised as an expense during the year/period in respect of continuing operations was \$102,312,000 (2010: \$72,640,000).

## NOTE 12: Current assets – Other

	31 July 2011 \$'000	31 July 2010 \$'000
Prepaid royalties	16,375	19,411
Prepayments	1,293	1,431
Product development costs	639	113
Trademarks	156	-
GST receivable	-	281
Other	76	-
	18,539	21,236

## NOTE 13: Current tax liabilities

	31 July 2011 \$'000	31 July 2010 \$'000
Tax payable	172	97

# Notes to the Financial Statements

31 July 2011

## NOTE 14: Current assets - Other financial assets

	31 July 2011 \$'000	31 July 2010 \$'000
Consideration receivable on sale of business <sup>(1)</sup>	6,147	4,825
Allowance for impairment loss <sup>(1)</sup>	(6,147)	-
	-	4,825
Other	-	10
	-	4,835

(1) During the prior period, the Group commenced legal proceedings to recover unpaid debts resulting from the sale of its apparel business in August 2009. The proceedings were issued against Australian Horizons Trading Pty Limited (AHT) and Jeffrey Moss as guarantor of certain AHT obligations under the 2009 sale of business agreement (SBA). The Group has made a claim against AHT and Jeffrey Moss. At the time of the sale of the business, the Group booked an asset based on the expected deferred consideration of the sale of the business – this amounts to \$6,147,000 as at 31 July 2011 and includes a reclassification of \$1,322,000 from trade and other receivables with respect to the prior period.

Whilst the Group will continue to pursue full settlement, with the passage of time the Directors consider it prudent to record a full impairment loss on the outstanding receivable and accordingly a \$6,147,000 impairment loss has been charged to profit or loss.

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

	31 July 2011 \$'000	31 July 2010 \$'000
Plant and equipment – at cost	7,312	6,955
Less: accumulated depreciation	(6,167)	(5,813)
	1,145	1,142
Leasehold improvements – at cost	2,482	2,425
Less: accumulated amortisation	(998)	(619)
	1,484	1,806
	2,629	2,948

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



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

## Reconciliations

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

	Plant and Equipment \$'000	Leasehold Improvements \$'000	Total \$'000
12 months ended 31 July 2011			
Cost			
Opening Balance	6,955	2,425	9,380
Additions	796	63	859
Disposals	(384)	(5)	(389)
Net foreign exchange difference	(55)	(1)	(56)
Closing Balance	7,312	2,482	9,794
Accumulated Depreciation			
Opening Balance	(5,813)	(619)	(6,432)
Disposals	292	5	297
Depreciation/amortisation	(702)	(285)	(987)
Impairment losses recognised in profit or loss	-	(100)	(100)
Net foreign exchange difference	56	1	57
Closing Balance	(6,167)	(998)	(7,165)
Written Down Value			
Opening Balance	1,142	1,806	2,948
Closing Balance	1,145	1,484	2,629
7 months ended 31 July 2010			
Cost			
Opening Balance	6,980	1,958	8,938
Additions	651	467	1,118
Disposals	(655)	-	(655)
Net foreign exchange difference	(21)	-	(21)
Closing Balance	6,955	2,425	9,380
Accumulated Depreciation			
Opening Balance	(5,527)	(474)	(6,001)
Disposals	500	-	500
Depreciation/amortisation	(786)	(145)	(931)
Net foreign exchange difference	-	-	-
Closing Balance	(5,813)	(619)	(6,432)
Written Down Value			
Opening Balance	1,453	1,484	2,937
Closing Balance	1,142	1,806	2,948

## NOTE 16: Non-current assets – Goodwill

	31 July 2011	31 July 2010
Note	\$'000	\$'000
Gross carrying amount		
Balance at the beginning of financial year/period	73,608	73,608
Additional amounts recognised from past business combinations – earnout obligations	1,633	-
Fair value adjustments in respect of past business combinations – earnout obligations	(2,680)	-
Impairment losses for the year/period	(4,507)	-
Balance at the end of financial year/period	68,054	73,608
Net book value		
Balance at the beginning of the financial year/period	73,608	73,608
Balance at the end of the financial year/period	68,054	73,608

## 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:

	31 July 2011	31 July 2010
	\$'000	\$'000
Cash generating unit		
Toys & Sporting <sup>1</sup>	39,204	36,751
International <sup>1</sup>	-	6,506
Entertainment	28,850	30,351
Total	68,054	73,608

<sup>1</sup>AASB 136 requires acquired goodwill to be allocated to the Group's CGUs, or to a group of its CGUs, that are expected to benefit from the synergies of the combination. If CGUs are subsequently revised, operations disposed or there is a change in the CGUs which are expected to benefit from the acquired synergies, AASB 136 requires goodwill to be reallocated to the units affected. During the year ended 31 July 2011, management identified that the Toys & Sporting CGU benefits from the synergies acquired as part of the acquisition of NSR (HK) Limited, which is included in the International CGU, on 14 August 2009. Accordingly, management has reorganised the goodwill pertaining to the International CGU resulting in an increase of \$2,453,000 in the goodwill allocated to the Toys & Sporting CGU.

# NOTE 16: Non-current assets – Goodwill (continued)

## 1. Toys & Sporting (T&S)

The recoverable amount of the T&S CGU 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 19.6% (2010: 19.1%) which represents the WACC for the CGU. The discount rate is pre-tax and represents the Group's WACC adjusted upwards to reflect the risks specific to the T&S 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% (2010: 0.0%). 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 T&S CGU includes other intangibles of \$2,320,000 (2010: \$1,807,000). These are brand names, licenses, distribution agreements, supplier relationships and computer software.

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.

## 2. International

The recoverable amount of the International CGU, including goodwill associated with the 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 19.6% (2010: 18.1%) which represents the WACC for the CGU. The discount rate is pre-tax and represents the Group's WACC adjusted to reflect the risks specific to the International 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% (2010: 0.0%). 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 recoverable amount assessment resulted in the recognition of goodwill impairment loss for the International business of \$3,006,000.

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 revised recoverable amount.

## 3. Entertainment

The recoverable amount of the Entertainment CGU is based on a value in use calculation which uses cash flow projections based on financial budgets approved by management, covering a five year period and using a discount rate of 18.6% (2010: 17.1%) which represents the WACC for the CGU. The discount rate is pre-tax and represents the Group's WACC adjusted downwards to reflect the risks specific to the Entertainment 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% (2010: 0.0%). 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 recoverable amount assessment resulted in the recognition of goodwill impairment loss for the Entertainment business of \$1,501,000.

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 revised 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.

# Notes to the Financial Statements

31 July 2011

## NOTE 17: Non-current assets – Other intangibles

	31 July 2011 \$'000	31 July 2010 \$'000		
Brand names (i),(iii)	1,015	1,015		
Computer software (ii)	4,902	4,666		
Less: Accumulated amortisation and impairment (ii)	(3,244)	(2,859)		
	1,658	1,807		
Licenses, distribution agreements & supplier relationships	1,895	48,500		
Less: Accumulated amortisation and impairment (ii)	(1,233)	(48,500)		
	662	-		
	3,335	2,822		
			Licenses, distribution agreements and supplier relationships	Total
	Computer Software \$'000	Brand Names \$'000	\$'000	\$'000
<i>Cost</i>				
Balance at 1 January 2010	4,438	1,015	48,500	53,953
Additions	228	-	-	228
Balance at 31 July 2010	4,666	1,015	48,500	54,181
Additions	236	-	1,301	1,537
Reclassifications (iv)	-	-	594	594
Disposals	-	-	(48,500)	(48,500)
Balance at 31 July 2011	4,902	1,015	1,895	7,812
<i>Accumulated amortisation and impairment</i>				
Balance at 1 January 2010	(2,731)	-	(48,500)	(51,231)
Amortisation expense (ii)	(128)	-	-	(128)
Balance at 31 July 2010	(2,859)	-	(48,500)	(51,359)
Amortisation expense (ii)	(385)	-	(376)	(761)
Impairment (iv)	-	-	(857)	(857)
Disposals	-	-	48,500	48,500
Balance at 31 July 2011	(3,244)	-	(1,233)	(4,477)
<i>Net book value</i>				
As at 31 July 2010	1,807	1,015	-	2,822
As at 31 July 2011	1,658	1,015	662	3,335

## NOTE 17: Non-current assets – Other intangibles (continued)

(i) Brands acquired and separately identified as part of the acquisition of Mike & Jack confectionery in May 2006. The Group intends to continue use of the brands for an indefinite period and are therefore not amortised but are subject to an annual test for impairment. The key assumptions used in the value in use calculations for Brand names are as follows: Average Sales Growth Rate 0.0% (2010: 0.0%) and the Discount Rate 18.6% (2010: 19.1%).

(ii) The amortisation expense has been included in the line item 'amortisation' in the statement of comprehensive income. A 7 year useful life is used in the calculation of amortisation of computer software costs. Distribution agreements have useful lives in the range of 1-3 years.

(iii) 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% (2010: 0.0%) and the Discount Rate 19.6% (2010: 18.1%).

(iv) A distribution agreement, the cost of which was previously classified in prepaid royalties, was assessed for recoverability during the year and management identified that, in light of weak sales and resulting future economic benefits, the agreement's recoverable amount was nil.

## NOTE 18: Non-current assets – Other financial assets

	31 July 2011 \$'000	31 July 2010 \$'000
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*Held to maturity carried at amortised cost:*

Held to maturity asset	-	1,606
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The Group held 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 returned 7.5% per annum and were convertible at par value on 30 June 2012. On 10 June 2011, the parties agreed to an early settlement and the Group received NZ\$1,925,000.

## NOTE 19: Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in note 21 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 20: Current liabilities – Trade payables

	31 July 2011 \$'000	31 July 2010 \$'000
Trade payables <sup>(1)</sup>	14,202	11,675

- (1) The average credit period on purchases of certain goods from international customers ranges from four weeks to four months. There is no interest charged on trade payables. The Group has financial risk management policies in place to ensure that, as often as possible, all payables are paid within a reasonable timeframe.

## NOTE 21: Borrowings

	31 July 2011 \$'000	31 July 2010 \$'000
Secured – at amortised cost		
<i>Current</i>		
Commercial bill finance	33,600	-
Debtors finance	24,165	-
Trade finance	23,094	-
Total Current	80,859	-
<i>Non-current</i>		
Commercial bill finance	-	33,600
Debtors finance	-	22,355
Trade finance	-	23,242
	-	79,197
Less: capitalised transaction costs	-	(321)
Total Non-current	-	78,876
Current borrowings	80,859	-
Non-current borrowings	-	78,876
	80,859	78,876

The trade finance, commercial 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

During the year ended 31 July 2011, the Group complied with its externally imposed financing covenants. As negotiated in July 2010, the Group extended the maturity of its financing arrangements to 31 August 2011 and, whilst the Group completed the renegotiation of its financing arrangements in September 2011, as at balance date they were contractually due to be repaid on 31 August 2011. Consequently, the Group's borrowings have been presented as current in this annual financial report.

Pursuant to the renegotiation of its borrowings, maturity of the facilities has been extended to 31 August 2013 with certain financial covenants being introduced, including amortisation of the commercial bills facility with no dividend payments permitted during the amortisation period. The Group amortised \$2,000,000 of its commercial bill facility on 31 August 2011.

The current interest rates are 8.51% on the debtors' finance facility, 8.51% on the trade finance facility and 8.49% on the commercial bill Facility (2010: 8.23%, 8.36% and 8.25% respectively).

## Financing Arrangements – Controlled Entities

All facilities are secured by a first ranking mortgage debenture of the Group. Refer to note 35 Financial Instruments for further details regarding the lending covenants associated with the borrowings.

# Notes to the Financial Statements

31 July 2011

## NOTE 22: Provisions

	31 July 2011 \$'000	31 July 2010 \$'000
<i>Current</i>		
Employee benefits(i)	1,473	1,706
Restructuring provisions(ii)	1,822	-
Licensor audits(iii)	3,439	1,978
Total Current	6,734	3,684
<i>Non-current</i>		
Employee benefits(i)	92	147
Restructuring provisions(ii)	1,348	-
Total Non-current	1,440	147
	8,174	3,831

	Restructuring (ii) \$'000	Licensor Audits (iii) \$'000	Total \$'000
Balance at 1 July 2010	-	1,978	1,978
Additional provisions recognised	3,170	2,395	5,565
Reductions arising from payments/other sacrifices of future economic benefits	-	(934)	(934)
Balance at 31 July 2011	3,170	3,439	6,609

(i) The provision for employee benefits represents annual leave and long service leave entitlements accrued and compensation claims made by employees.

(ii) The provision for restructuring is consistent with the Group's continued focus on transforming the business for a more sustainable future. The provision represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required in order to effect the restructuring plan.

(iii) Product license 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 in the annual report.

# Notes to the Financial Statements

31 July 2011

## NOTE 23: Deferred purchase consideration

	31 July 2011 \$'000	31 July 2010 \$'000
<i>Current</i>		
Deferred purchase consideration	1,320	2,367
Total Current	1,320	2,367

On 13 August 2009 the Group 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 may be payable for both the 2010 and 2011 financial years subject to the achievement 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 2010 year; however the Group has recognised an amount payable of \$1,320,000 in respect to 2011 performance.



# Notes to the Financial Statements

31 July 2011

## NOTE 24: Other liabilities

	31 July 2011	31 July 2010
	\$'000	\$'000
<i>Current</i>		
Accrued royalties	2,682	5,522
GST payable	1,030	-
Lease incentives	212	213
Payroll accruals	704	950
Other accrued expenses	4,896	4,779
	<u>9,524</u>	<u>11,464</u>
<i>Non-current</i>		
Lease incentives	985	1,117
	<u>985</u>	<u>1,117</u>

## NOTE 25: Other financial liabilities

		31 July 2011	31 July 2010
		\$'000	\$'000
<i>Current</i>	Note		
Derivatives			
Derivatives that are designated and effective as hedging instruments carried at fair value:			
Foreign currency forward contracts		2,744	831
Interest rate swaps		853	140
	35	<u>3,597</u>	<u>971</u>
Disclosed in the financial statements as:			
Current other financial liabilities		<u>3,597</u>	<u>971</u>

# Notes to the Financial Statements

31 July 2011

## NOTE 26: Issued capital

	31 July 2011	31 July 2010
	\$'000	\$'000
Share Capital		
340,997,682 fully paid ordinary shares (2010: 340,997,682)	159,377	159,377

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.

	31 July 2011		31 July 2010	
	Number of Shares		Number of Shares	
Details	'000	\$'000	'000	\$'000
<i>Movements in Ordinary Share Capital</i>				
Opening balance	340,998	159,377	340,998	159,377
Closing balance	340,998	159,377	340,998	159,377

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

### Dividend Reinvestment Plan

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

### Share Purchase Plan

There were no Share Purchase Plans offered to shareholders during the current year.

### Share Issue on Acquisition of Business Assets

There were no shares issued on acquisition of business assets during the current year.

## Notes to the Financial Statements

### NOTE 26: Issued capital (continued)

#### Options

##### *Executive Share Options*

At 31 July 2011, executives held options over 5,200,000 ordinary shares of the Company, of which 200,000 will expire on 2 September 2013, 4,000,000 will expire on 10 August 2014 and 1,000,000 will expire on 1 April 2015. At 31 July 2010, executives held options over 6,950,000 ordinary shares of the Company, of which 200,000 will expire on 2 September 2013, 5,000,000 will expire on 10 August 2014 and 1,750,000 will expire on 1 April 2015.

Share options granted under the Executive Share Option Plan (ESOP) carry no rights to dividends and no voting rights. Further details of the ESOP, including details of shares issued under the scheme, are set out in note 36.

##### *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 July 2004 and may be exercised at an exercise price of \$1.50 at any time up until the expiry date of 19 January 2014.

#### Rights

##### *Employee Performance Share Rights*

At 31 July 2011, employees held options over 10,000 ordinary shares of the Company which will expire on 2 September 2013. At 31 July 2010, employees held options over 50,000 ordinary shares of the Company which will expire on 2 September 2013.

Share options granted under the Employee Performance Share Rights Plan (EPSR) carry no rights to dividends and no voting rights. Further details of the EPSR, including details of shares issued under the scheme, are set out in note 36.

### NOTE 27: Accumulated losses

	31 July 2011 \$'000	31 July 2010 \$'000
Opening balance	(85,964)	(82,385)
Net loss after tax for the year/period	(38,205)	(3,579)
Dividends paid	-	-
Balance at the end of financial year/period	(124,169)	(85,964)

## NOTE 28: Reserves

	31 July 2011 \$'000	31 July 2010 \$'000
Foreign currency translation reserve	(966)	(1,048)
Equity-settled benefits reserve	1,474	1,374
Cash flow hedging reserve	(2,518)	(479)
	(2,010)	(153)
Foreign currency translation reserve		
Balance at the beginning of the year/period	(1,048)	(1,083)
Translation of foreign operations	82	35
Balance at the end of the year/period	(966)	(1,048)

Exchange differences relating to the translation from United States Dollars, New Zealand Dollars and Hong Kong Dollars, being the functional currencies of the Group's foreign controlled entities in USA (not a principal place of business), New Zealand and Hong Kong, into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

	31 July 2011 \$'000	31 July 2010 \$'000
Equity settled benefit reserve		
Balance at the beginning of the year/period	1,374	1,237
Share based payments	100	137
Transfer to share capital	-	-
Balance at the end of the year/period	1,474	1,374

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 36 to the financial statements.

## NOTE 28: Reserves (continued)

	31 July 2011 \$'000	31 July 2010 \$'000
Cash Flow Hedging reserve		
Balance at the beginning of the year/period	(479)	(409)
Gain/(Loss) recognised:		
Forward exchange contracts	(2,745)	(484)
Interest rate swaps	(934)	401
Transferred to profit or loss (i):		
Forward exchange contracts	476	-
Interest rate swaps	272	17
Transferred to initial carrying amount of hedged item:		
Interest rate swaps	12	(17)
Deferred tax asset/(liability) arising on hedges	880	13
Balance at the end of the year/period	(2,518)	(479)
(i) 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:		
	31 July 2011 \$'000	31 July 2010 \$'000
Revenue	12	-
Finance costs	(272)	(17)
	(260)	(17)

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.

# Notes to the Financial Statements

31 July 2011

## NOTE 29: Earnings per share

	31 July 2011 Cents per share	31 July 2010 Cents per Share
Basic earnings per share		
From continuing operations	(11.2)	(1.05)
<i>Earnings per share</i>	(11.2)	(1.05)
Diluted earnings per share		
From continuing operations	(11.2)	(1.05)
<i>Earnings per share</i>	(11.2)	(1.05)
Basic earnings per share		
The earnings and weighted average number of ordinary shares used in the calculation of earnings per share are as follows:		
	2011 \$'000	2010 \$'000
Net loss	(38,205)	(3,579)
Loss used in the calculation of total basic EPS from continuing operations	(38,205)	(3,579)
	2011 No. '000	2010 No. '000
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	340,998	340,998
Diluted earnings per share		
The earnings used in the calculation of diluted earnings per share are as follows:		
	2011 \$'000	2010 \$'000
Net loss	(38,205)	(3,579)
Loss used in the calculation of diluted EPS from continuing operations	(38,205)	(3,579)
	2011 No. '000	2010 No. '000
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	340,998	340,998
Shares deemed to be issued for no consideration in respect of:		
Earnout shares (refer note 23)	15,918	11,835
Share options and performance share rights	694	2,118
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	357,610	354,951

# Notes to the Financial Statements

31 July 2011

## NOTE 29: 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:

	31 July 2011 No. '000	31 July 2010 No. '000
Potential options non dilutive	6,510	8,500
	6,510	8,500

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

	31 July 2011 No. '000	31 July 2010 No. '000
Options to purchase ordinary shares pursuant to the employee share option plan	-	-
	-	-

## NOTE 30: Dividends

No dividends were declared or paid in 2010 or 2011.

	31 July 2011 \$'000	31 July 2010 \$'000
Adjusted franking account balance	21,891	21,891

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 31: Lease commitments

## Lease commitments

Non-cancellable operating lease commitments are disclosed in note 32 to the financial statements. The Group does not have any finance lease liabilities as at 31 July 2011 (31 July 2010: \$nil).

## 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:

	31 July 2011 \$'000	31 July 2010 \$'000
Not later than one year	2,147	3,116
Later than one year but not later than two years	377	1,782
Later than two years but not later than five years	112	1,463
	<u>2,636</u>	<u>6,361</u>

## NOTE 32: Leases

	31 July 2011 \$'000	31 July 2010 \$'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	2,563	2,339
Later than one year but not later than five years	7,781	7,652
Later than five years	1,469	3,244
	<u>11,813</u>	<u>13,235</u>

The operating leases are non-cancellable leases with respect to office and warehouse premises with lease terms of between six months and six years, some with options to extend. All operating leases with options to extend contain market review clauses in the event that the company Group exercises its option to renew. The Group and the company do not have an option to purchase the leased asset at the expiry of the leased period.



## NOTE 33: Subsidiaries

Name of Entity	Country of Incorporation	Equity Holding	
		31 July 2011 %	31 July 2010 %
Company			
Funtastic Limited <sup>(i)</sup>	Australia	100	100
Subsidiaries			
JNH Australia Pty Ltd <sup>(ii),(iii)</sup>	Australia	100	100
Fun International Ltd	Hong Kong	100	100
Funtastic International Limited	Hong Kong	100	100
Funtastic (NZ) Pty Limited <sup>(ii),(iii)</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),(iii)</sup>	Australia	100	100
Madman Films Pty Limited <sup>(ii),(iii)</sup>	Australia	100	100
Madman Interactive Pty Limited <sup>(ii),(iii)</sup>	Australia	100	100
The AV Channel Pty Limited <sup>(ii),(iii)</sup>	Australia	100	100
Funtastic USA Pty Ltd <sup>(ii),(iii)</sup> (formerly Judius Pty Ltd)	Australia	100	100
My Paint Box Inc	USA	100	100
Madman NZ Limited	New Zealand	100	100
NSR (HK) Limited	Hong Kong	100	100
Hkeepod (HK) Limited	Hong Kong	100	100

(i) Funtastic Limited is the head entity within the tax-consolidated Group.

(ii) These companies are members of the tax-consolidated Group.

(iii) 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 July 2008.

## NOTE 33: Subsidiaries (continued)

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

	12 months ended 31 July 2011 \$'000	7 months ended 31 July 2010 \$'000
<i>Continuing operations</i>		
Revenue	172,010	108,273
Cost of goods sold	(118,680)	(72,615)
Gross profit	53,330	35,658
Warehouse and distribution	(15,528)	(10,003)
Marketing and selling	(30,263)	(18,336)
Administration	(13,606)	(4,756)
Impairment and restructuring costs	(20,973)	-
Earnings before interest, taxation, amortisation and depreciation expenses (EBITDA)	(27,040)	2,563
Finance costs	(7,220)	(3,582)
Depreciation and amortisation expenses	(2,342)	(274)
Loss before income tax	(36,602)	(1,293)
Income tax benefit/(expense)	283	(3,293)
Loss for the year/period from continuing operations	(36,319)	(4,586)
<i>Other comprehensive income</i>		
Exchange differences arising on translation of foreign operations	-	-
Loss on cash flow hedges taken to equity	(2,039)	(70)
Other comprehensive income for the year/period (net of tax)	(2,039)	(70)
Loss for the year/period	(38,358)	(4,656)

## NOTE 33: Subsidiaries (continued)

	31 July 2011 \$'000	31 July 2010 \$'000
Current Assets		
Cash	1,599	584
Trade and other receivables	25,791	38,005
Inventories	20,644	29,178
Other	28,359	25,035
Other financial assets	5,989	10,824
Total Current Assets	82,382	103,626
Non-Current Assets		
Property, plant and equipment	2,296	2,259
Goodwill	62,427	67,981
Other intangibles	2,320	2,359
Investments	4	4
Deferred tax assets	12,096	14,924
Other financial assets	-	1,606
Total Non-Current Assets	79,143	89,133
Total Assets	161,525	192,759
Current Liabilities		
Trade and other payables	13,497	11,488
Borrowings	80,859	-
Provisions	6,721	1,688
Deferred purchase consideration	1,320	2,367
Other	352	2,730
Other financial liabilities	3,597	971
Total Current Liabilities	106,346	19,244
Non-Current Liabilities		
Borrowings	-	78,876
Provisions	1,440	147
Deferred tax liabilities	4,410	6,775
Other	957	1,086
Total Non-Current Liabilities	6,807	86,884
Total Liabilities	113,153	106,128
Net Assets	48,372	86,631
Equity		
Issued capital	159,212	159,212
Accumulated losses	(108,835)	(72,515)
Reserves	(2,005)	(66)
Total Equity	48,372	86,631

## NOTE 34: Notes to the cash flow statement

## a) Reconciliation of cash and cash equivalents

	31 July 2011	31 July 2010
	\$'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	1,948	972
	1,948	972

## NOTE 34: Notes to the cash flow statement (continued)

## b) Financing facilities

	31 July 2011 \$'000	31 July 2010 \$'000
Total Financing Facilities Available		
National Debtor Finance Facility	25,000	25,000
Trade Refinance Facility	23,300	23,300
Commercial Bill Facility	33,600	33,600
Letters of Credit	12,000	16,400
Bank Guarantees	2,300	2,300
Other Facilities	250	250
	96,450	100,850
Reconciliation of Total Financing Facilities		
<i>Facilities Used at Balance Date</i>		
National Debtor Finance Facility	24,165	22,355
Trade Refinance Facility	23,094	23,242
Commercial Bill Facility	33,600	33,600
Letters of Credit	7,384	8,986
Bank Guarantees	2,275	2,275
Other Facilities	28	3
	90,546	90,461
<i>Facilities Unused at Balance Date</i>		
National Debtor Finance Facility	835	2,645
Trade Refinance Facility	206	58
Commercial Bill Facility	-	-
Letters of Credit	4,616	7,414
Bank Guarantees	25	25
Other Facilities	222	247
	5,904	10,389
Total Financing Facilities	96,450	100,850

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

## NOTE 34: Notes to the cash flow statement (continued)

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

	12 months ended 31 July 2011 \$'000	7 months ended 31 July 2010 \$'000
Loss after income tax	(38,205)	(3,579)
Amortisation	1,046	327
Impairment	6,172	-
Depreciation	702	1,113
Interest revenue	(134)	(72)
Share options expense	100	137
Loss on sale of non-current assets	82	6
Income tax refund	(292)	-
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
Decrease in trade and other receivables	11,309	3,713
Decrease in inventories	7,307	1,549
Decrease in deferred tax asset	1,854	2,084
Decrease in prepayments and other current assets	2,697	432
Decrease in other financial assets	4,835	69
Increase/(decrease) in trade creditors	2,527	(8,684)
Decrease/(increase) in current tax asset	-	187
Increase in current tax liability	75	97
Increase/(decrease) in provisions	6,321	(2,016)
Decrease in deferred tax liability	(2,365)	(2,202)
(Decrease)/increase in other liabilities	(4,050)	720
Net cash outflow from operating activities	(19)	(6,119)

## NOTE 35: Financial instruments

## Capital risk management

The Group 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 consists of debt, which comprises the borrowings detailed in note 21, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, accumulated losses and reserves as disclosed in notes 26, 27 and 28 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 ended 31 July 2011, the Group complied with its externally imposed financing covenants. Whilst the Group completed the renegotiation of its financing arrangements in September 2011, as at balance date they were contractually due to be repaid on 31 August 2011. Consequently, the Group's borrowings have been presented as current in this annual financial report.

Pursuant to the renegotiation of its borrowings, maturity of the facilities has been extended to 31 August 2013 with certain financial covenants being introduced, including amortisation of the commercial bills facility with no dividend payments permitted during the period through to maturity. The Group amortised \$2,000,000 of its commercial bill facility on 31 August 2011.

## 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 period.

## Notes to the Financial Statements

31 July 2011

### NOTE 35: Financial instruments (continued)

Financial Instrument	31 July 2011 \$'000	31 July 2010 \$'000
Financial assets		
Derivative instruments in designated hedge accounting relationships	-	10
Loans and receivables (including cash and cash equivalents)	29,202	43,601
Convertible note held to maturity	-	1,606
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	3,597	971
Amortised cost	104,988	109,804

#### 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 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
- § Interest rate swaps to mitigate the risk of rising interest rates.

At a Group level, market risk exposures are measured through sensitivity analysis and stress scenario analysis.

In 2011, while there has been a strengthening of the Australian dollar against the US dollar, and static variable interest rates, there has been no material change to the Group's exposure to market risk or the manner in which it manages and measures the risk.



# NOTE 35: 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'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 foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Liabilities		Assets	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
US dollars	4,705	6,793	4,478	6,636
NZ dollars	148	475	927	1,130
Euro	316	274	10	53
Other	50	22	-	6

## Foreign currency sensitivity

The Group is 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. A positive number indicates an increase in profit or loss 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 profit or loss, and the balances below would be equal and opposite. A positive number indicates an increase in other equity where the Australian dollar weakens against the respective currency. For a strengthening of the Australian dollar against the respective currency there would be an equal and opposite impact on other equity, and the balances below would be negative.

	USD impact		EURO impact		NZD impact	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Profit & Loss <sup>(i)</sup>	20	40	27	25	(71)	(36)
Other equity <sup>(ii)</sup>	965	1,146	-	-	-	-

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

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

**NOTE 35: 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:

	Average Exchange Rate		Foreign currency		Contract value		Fair value	
	2011	2010	2011	2010	2011	2010	2011	2010
Outstanding contracts								
Buy US dollars	AUD/USD		US\$'000		A\$'000		\$'000	
0-12 months	0.9132	0.8622	16,348	12,984	17,902	15,059	(2,744)	(476)
Total	0.9132	0.8622	16,348	12,984	17,902	15,059	(2,744)	(476)

The Group has 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 \$2,744,000 (2010: \$476,000).

During the year ended 31 July 2011 a loss on hedging instruments for the Group of \$2,744,000 (31 July 2010: loss \$476,000) has been brought to account in other current financial assets and liabilities (refer note 25). An amount, net of tax, was transferred to equity (refer note 28). It is anticipated these purchases will take place during the first 6 months of the next financial year at which stage the amount deferred in equity will be included in the carrying amount of the finished goods inventory. It is anticipated that the finished goods inventory will be sold within 12 months after purchase at which stage the amount deferred in equity will impact profit or loss.

**Interest rate risk management**

Interest rate risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is 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's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section below.

**NOTE 35: Financial instruments (continued)**
**Interest rate sensitivity**

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

- § Net loss after taxation would increase/decrease by \$662,000 (2010: increase/decrease by \$258,000). This is mainly due to the Group's exposure to interest rates on its variable rate borrowings; and
- § Equity would increase/decrease by \$992,000 (2010: \$nil). This is due to the Group's interest rate swap entered 1 June 2011. In the prior year, as a result of the then Group's interest rate swap being de-designated, the balance deferred in the cash flow hedging reserve was being amortised on a straight line basis through to maturity and accordingly, because the interest rate swap was no longer effective, the movement in the fair value of the swap is recorded directly in profit or loss during the period.

**Interest Rate Swap Contracts**

Bank loans of the Group currently bear an average variable interest rate of 8.51% (2010: 8.33%). It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group 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 70% of the total debt outstanding with its senior lender and is timed to expire on 30 August 2013 (2010: swap in place covered 100% of the long term loan principal outstanding which expired on 10 November 2010). The fixed interest rate is 5.53% (2010: 6.01%) and the variable rate is the bank bill rate of the term of the underlying bill which at balance date was 4.99% (2010: 4.75%).

As at 31 July 2011, the notional principal amounts and the periods of expiry of the interest rate swap contracts for the Group were as follows:

	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2011 %	2010 %	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Outstanding floating for fixed contracts						
Less than 1 year	-	6.01	-	31,900	-	(140)
2-3 years	5.53	-	70,382	-	(853)	-
			70,382	31,900	(853)	(140)

The interest rate swap contract exchanging floating rate interest amounts for fixed rate interest amounts is designated as a cash flow hedge in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swap 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.

# NOTE 35: Financial instruments (continued)

## 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. The Group has 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 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 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.

## Liquidity and interest tables - financial liabilities

The following tables detail the Group'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.

	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
<b>2011</b>							
Non-interest bearing	-	2,840	11,361	9,928	-	-	24,129
Variable interest rate instruments	8.51%	24,400	-	-	-	-	24,400
Fixed interest rate instruments <sup>(1)</sup>	9.03%	56,959	-	-	-	-	56,959
		84,199	11,361	9,928	-	-	105,488
<b>2010</b>							
Non-interest bearing	-	2,335	9,340	18,932	-	-	30,607
Variable interest rate instruments	8.33%	-	-	-	49,712	-	49,712
Fixed interest rate instruments <sup>(1)</sup>	9.51%	155	311	2,574	34,022	-	37,062
		2,490	9,651	21,506	83,734	-	117,381

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

## NOTE 35: Financial instruments (continued)

## Liquidity and interest tables - financial assets

The following table details the Group'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 anticipates that the cash flow will occur in a different period.

	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
2011							
Non-interest bearing	-	5,306	21,542	406	-	-	27,254
Variable interest rate instruments	3.57%	1,948	-	-	-	-	1,948
Fixed interest rate instruments	-	-	-	-	-	-	-
		7,254	21,542	406	-	-	29,202
2010							
Non-interest bearing	-	7,563	30,243	4,825	-	-	42,631
Variable interest rate instruments	3.33%	972	-	-	-	-	972
Fixed interest rate instruments	7.50%	-	-	-	1,837	-	1,837
		8,535	30,243	4,825	1,837	-	45,440

## 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 36: Share-based payments  
Executive Share Option Plan (ESOP)

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 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;

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 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.

Option type 4

Type 4 options are identical to type 3 options in every regard, except for the following exercise price and performance hurdles:

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 20.7 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 27 cents;
- b) in year 2 the share price to be no less than 35 cents; and
- c) in year 3 the share price to be no less than 45 cents.

# NOTE 36: Share-based payments (continued)

ESOP 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 – 2010^

Option type	Option number	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
4	37	1,000,000	01/04/2010	01/04/2015	\$0.207	\$0.119
4	38	750,000	01/04/2010	01/04/2015	\$0.207	\$0.119

^ - No options were granted during the current year; option number 38 was forfeited on 20 June 2011.

## Balance outstanding at the end of the financial year

2011

Option Type	Option Number	Grant date	Expiry date	Exercise price	Grant date average fair value	Balance at end of period
2	33	20/03/2008	02/09/2013	\$0.440	\$0.120	200,000
3	35	21/08/2009	10/08/2014	\$0.135	\$0.072	4,000,000
4	37	01/04/2010	01/04/2015	\$0.207	\$0.119	1,000,000
						5,200,000

2010

Option Type	Option Number	Grant Date	Expiry date	Exercise price	Grant date average fair value	Balance at end of period
2	33	20/03/2008	02/09/2013	\$0.440	\$0.120	200,000
3	35	21/08/2009	10/08/2014	\$0.135	\$0.072	4,000,000
3	36	21/08/2009	10/08/2014	\$0.135	\$0.072	1,000,000
4	37	01/04/2010	01/04/2015	\$0.207	\$0.119	1,000,000
4	38	01/04/2010	01/04/2015	\$0.207	\$0.119	750,000
						6,950,000

# Notes to the Financial Statements

31 July 2011

## NOTE 36: Share-based payments (continued)

### 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	33	35	36 <sup>1</sup>	37	38 <sup>2</sup>
Grant Date	20/03/08	21/08/09	21/08/09	01/04/2010	01/04/2010
Vesting Date	31/08/11	21/08/12	21/08/12	09/11/11 & 09/11/12	01/01/12 & 01/01/13
Expiry Date	02/09/13	10/08/14	10/08/14	01/04/15	01/04/15
Exercise price	\$0.440	\$0.135	\$0.135	\$0.207	\$0.207
Stock Price at Issue	\$0.370	\$0.200	\$0.200	\$0.230	\$0.230
Expected Life (years)	4.3	4.4	4.4	4.4	4.4
Volatility	50%	60%	60%	72%	72%
Risk free rate	6.00%	6.60%	6.60%	5.48%	5.48%
Dividend yield	4.00%	4.00%	4.00%	4.00%	4.00%
Vesting period (years)	N/A	N/A	N/A	N/A	N/A
Average fair value	\$0.115	\$0.072	\$0.072	\$0.119	\$0.119

(1) Option series 36 lapsed on 2 September 2010; and

(2) Option series 38 lapsed on 20 June 2011.

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

	2011		2010	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at the beginning of the financial year/period	6,950,000	0.164	5,200,000	0.150
Granted during the financial year/period	-	-	1,750,000	0.207
Forfeited during the financial year/period	(1,750,000)	(0.166)	-	-
Exercised during the financial year/period	-	-	-	-
Expired during the financial year/period	-	-	-	-
Balance at the end of the financial year/period	5,200,000	0.144	6,950,000	0.164
Exercisable at the end of the financial year/period	-	-	-	-

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

The weighted average remaining contractual life of the share options outstanding as at 31 July 2011 is 3.16 years (31 July 2010: 4.16 years)

The weighted average fair value of options granted during the prior year was \$0.119; no options were granted during the current year.



#### NOTE 36: 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 period was \$Nil (2010:\$ Nil).

Market value of shares issued to executives on the exercise of options as at their issue date in the financial period was \$Nil (2010:\$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.

## Notes to the Financial Statements

31 July 2011

### NOTE 36: 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 period or preceding financial year.

#### EPSR Balance outstanding at the end of the financial year

2011

EPSR type	EPSR Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Balance at end of Financial year
2	35	03/07/2008	02/09/2013	Nil	\$0.39	10,000
						10,000

2010

EPSR type	EPSR Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Balance at end of Financial year
2	35	03/07/2008	02/09/2013	Nil	\$0.39	50,000
						50,000

No Rights were vested at the reporting date.

#### Fair value of performance rights granted

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

# NOTE 36: Share-based payments (continued)

The model inputs for performance rights granted include:

EPSR Number	35
Issue Date	03/07/2008
Vesting Date	31/03/12 & 31/08/12
Expiry Date	02/09/13
Exercise price	\$0.00
Stock Price at Issue	\$0.50
Expected life (year)	2.9
Volatility	60%
Risk free rate	6.65%
Dividend yield	4.0%
Value	\$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:

	31 July 2011		31 July 2010	
	Number of EPSRs	Weighted average exercise price \$	Number of EPSRs	Weighted average exercise price \$
Balance at the beginning of the financial year	50,000	-	150,000	-
Granted during the financial year	-	-	-	-
Forfeited during the financial year	-	-	-	-
Exercised during the financial year	-	-	-	-
Expired during the financial year	(40,000)	-	(100,000)	-
Balance at the end of the financial year	10,000	-	50,000	-
Exercisable at the end of the financial year	-	-	-	-

No EPSRs were exercised during the current period 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 July 2011 is 2.09 years (2010:3.09 years).

During the year, no performance share rights were granted (2010: nil).

## NOTE 37: 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:

Shane Tanner	Chairman & Independent Non-executive Director
Stewart Downs	Managing Director & Chief Executive Officer
Craig Mathieson	Non-executive Director
Nir Pizmony	Executive Director
James Flintoft	Independent Non-executive Director – resigned 2 September 2011
Stephen Heath	Independent Non-executive Director – appointed 1 October 2010
James Cody	Chief Financial Officer
Tim Anderson	Joint General Manager - Entertainment
Paul Wiegard	Joint General Manager - Entertainment
Garry Mudford	General Manager Toys & Sporting – redundant effective 2 September 2010
Adam Kocks	General Manager Asia – redundant effective 20 June 2011

## Key management personnel compensation

The aggregate compensation made to key management personnel of the Group is set out below:

	12 months ended 31 July 2011 \$	7 months ended 31 July 2010 \$
Short-term employee benefits	2,563,991	1,685,474
Post-employment benefits	211,837	107,493
Other long-term benefits	9,547	58,373
Termination benefits	333,995	-
Share-based payments	110,221	94,107
	<u>3,229,591</u>	<u>1,945,447</u>

# NOTE 38: 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 33 to the financial statements.

## b) Transactions with Key Management Personnel

*Key management personnel compensation.*

Details of key management personnel compensation are disclosed in note 37 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 (2010: Nil)

## Key management personnel equity holdings

### Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Funtastic Limited and each of the key management personnel of the consolidated entity, including their related entities, are set out below.

12 months ended 31 July 2011	Balance at the start of the period	Granted during the period as remuneration	Exercised during the period	Other changes during the period i.e. forfeited/lapsed	Balance at the end of the period	Vested and exercisable at the end of the period
Non-Executive Directors						
Shane Tanner	-	-	-	-	-	-
Craig Mathieson	-	-	-	-	-	-
James Flintoft	-	-	-	-	-	-
Stephen Heath <sup>(1)</sup>	-	-	-	-	-	-
Executive Directors						
Stewart Downs	4,200,000	-	-	(200,000)	4,000,000	-
Nir Pizmony	-	-	-	-	-	-
Executives						
Garry Mudford <sup>(3)</sup>	1,000,000	-	-	(1,000,000)	-	-
Tim Anderson	-	-	-	-	-	-
Paul Wiegard	-	-	-	-	-	-
Adam Kocks <sup>(2)</sup>	750,000	-	-	(750,000)	-	-
James Cody	1,000,000	-	-	-	1,000,000	-

(1) Mr S Heath – appointed to the Board effective 1 October 2010;

(2) Mr A Kocks – redundant effective 20 June 2011; and

(3) Mr G Mudford – redundant effective 2 September 2010.

# Notes to the Financial Statements

31 July 2011

## NOTE 38: Related party transactions (continued)

7 months ended 31 July 2010	Balance at the start of the period	Granted during the period as remuneration	Exercised during the period	Other changes during the period i.e. forfeited/lapsed	Balance at the end of the period	Vested and exercisable at the end of the period
Non-Executive Directors						
Graeme Yeomans <sup>(2)</sup>	-	-	-	-	-	-
Shane Tanner <sup>(1)</sup>	-	-	-	-	-	-
Craig Mathieson	-	-	-	-	-	-
James Flintoft <sup>(3)</sup>	-	-	-	-	-	-
Executive Directors						
Stewart Downs	4,200,000	-	-	-	4,200,000	-
Nir Pizmony	-	-	-	-	-	-
Executives						
Garry Mudford <sup>(4)</sup>	1,000,000	-	-	-	1,000,000	-
Tim Anderson	-	-	-	-	-	-
Paul Wiegard	-	-	-	-	-	-
Adam Kocks <sup>(5)</sup>	-	750,000	-	-	750,000	-
James Cody	-	1,000,000	-	-	1,000,000	-

(1) Mr S Tanner- appointed Independent non executive director effective 19 March 2010 and Chairman effective 21 May 2010;

(2) Mr G Yeomans – resigned effective 21 May 2010;

(3) Mr J Flintoft – appointed independent non-executive director effective 15 January 2010;

(4) Mr G Mudford – appointed General Manager TLM effective 10 August 2009, redundant 2 September 2010; and

(5) Mr A Kocks – redundant effective 20 June 2011.

# Notes to the Financial Statements

31 July 2011

## NOTE 38: 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 Group including their related entities, are set out below.

12 months ended 31 July 2011	Balance at the start of the period	Granted during the period as remuneration	Exercised during the period	Other changes during the period i.e. forfeited/lapsed	Balance at the end of the period	Vested and exercisable at the end of the period
Executives						
Stewart Downs	-	-	-	-	-	-
Tim Anderson	-	-	-	-	-	-
Paul Wiegard	-	-	-	-	-	-
Adam Kocks <sup>(1)</sup>	20,000	-	-	(20,000)	-	-
James Cody	-	-	-	-	-	-

7 months ended 31 July 2010	Balance at the start of the period	Granted during the period as remuneration	Exercised during the period	Other changes during the period i.e. forfeited/lapsed	Balance at the end of the period	Vested and exercisable at the end of the period
Executives						
Stewart Downs	-	-	-	-	-	-
Garry Mudford <sup>(2)</sup>	-	-	-	-	-	-
Tim Anderson	-	-	-	-	-	-
Paul Wiegard	-	-	-	-	-	-
Adam Kocks	20,000	-	-	-	20,000	-
James Cody	-	-	-	-	-	-

(1) Mr A Kocks – redundant 20 June 2011; and

(2) Mr G Mudford – redundant 2 September 2010.

## Notes to the Financial Statements

### NOTE 38: 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 Group, including their related entities, are set out below.

12 months ended 31 July 2011	Balance at the start of the period	Received during the period on the exercise of options	Shares purchased during the period	Received as consideration on acquisition of business	Shares sold during the period	Balance at the end of the period or date of retirement / resignation
<b>Directors</b>						
Shane Tanner	200,000	-	-	-	-	200,000
Stewart Downs	1,642,890	-	100,000	-	-	1,742,890
Craig Mathieson	91,031,312	-	5,781,086	-	-	96,812,398
Nir Pizmony	16,855,742	-	-	-	(2,736,054)	14,119,688
James Flintoft <sup>(1)</sup>	1,350,848	-	-	-	-	1,350,848
<b>Executives</b>						
Adam Kocks	30,000	-	-	-	-	30,000
James Cody	-	-	-	-	-	-
Tim Anderson	1,555,870	-	-	-	-	1,555,870
Paul Wiegard	1,555,870	-	-	-	-	1,555,870
Garry Mudford	250,000	-	-	-	-	250,000
7 months ended 31 July 2010	Balance at the start of the period	Received during the period on the exercise of options	Shares purchased during the period	Received as consideration on acquisition of business	Shares sold during the period	Balance at the end of the period or date of retirement / resignation
<b>Directors</b>						
Shane Tanner	-	-	200,000	-	-	200,000
Graeme Yeomans	500,000	-	-	-	-	500,000
Stewart Downs	1,642,890	-	-	-	-	1,642,890
Craig Mathieson	87,880,947	-	3,150,365	-	-	91,031,312
Nir Pizmony	16,855,742	-	-	-	-	16,855,742
James Flintoft <sup>(1)</sup>	1,350,848	-	-	-	-	1,350,848
<b>Executives</b>						
Adam Kocks	30,000	-	-	-	-	30,000
James Cody	-	-	-	-	-	-
Tim Anderson	1,555,870	-	-	-	-	1,555,870
Paul Wiegard	1,555,870	-	-	-	-	1,555,870
Garry Mudford	250,000	-	-	-	-	250,000

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



## NOTE 38: 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:

	31 July 2011	31 July 2010
	\$	\$
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Gross revenue	-	75
Interest revenue	-	-
Dividend revenue	-	-
	-	75
Consolidated profit includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Cost of goods sold	7,617,083	5,264,722
Warehouse & distribution	812,608	743,682
Marketing & Selling	-	139,130
Interest expense	-	-
Net amounts written off and allowances for doubtful receivables	-	-
	8,429,691	6,147,534
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 – Other (prepaid expenses)	210,001	513,578
Current – Inventories	74,509	152,104
Current – Trade receivables: Allowance for doubtful receivables	-	-
Non-current	-	-
	284,510	665,682
Total liabilities arising from transactions other than compensation with key management personnel or their related parties:		
Current	1,152,274	749,023
Non-current	-	-
	1,152,274	749,023

The above transactions were performed at arm's length.

# NOTE 38: Related party transactions (continued)

During the financial year/period, the Group recognised the following transactions with key management personnel:

- § Sales of \$nil (2010: \$75) to Petite Living Pty Limited a company related to Mr Craig Mathieson and Mr Stewart Downs;
- § Purchases of \$3,057,637 (2010: \$3,639,324) from Toymonster Limited a Hong Kong registered company related to Mr Nir Pizmony;
- § Purchases of \$4,348,065 (2010: \$1,975,268) from Madman Printing Pty Limited a company related to Mr Time Anderson and Mr Paul Wiegard;
- § Royalty payments of \$211,381 (2010: \$265,812) to Wild Pumpkin Royalties Pty Limited a company related to Mr Nir Pizmony;
- § Salaries and wages of \$812,608 (2010: \$743,682) for the provision of casual labour to Premium Staffing Solutions Pty Limited a company related to Mr Craig Mathieson;
- § Rental expense of \$nil (2010: \$139,130) was paid to Jemasky Pty Limited a company related to Mr Nir Pizmony for the rental of office and warehouse space; and
- § 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 US\$650,000 of the shareholder loan at the date of completion i.e. 14 August 2009. A further US\$650,000 was paid to the shareholders of NSR on 4 January 2010. Subsequent to balance date, the Company has repaid US\$300,000 to the shareholders of NSR.

## d) Transactions with other related parties

Transactions between Funtastic Limited and other entities in the wholly-owned Group during the year ended 31 July 2011 and period ended 31 July 2010:

- § Sales made by Funtastic Limited;
- § loans advanced and interest charged by Funtastic Limited;
- § management services provided by Funtastic Limited;
- § management services provided to Funtastic Limited; and
- § payment to/from Funtastic Limited for the above services.

# Notes to the Financial Statements

31 July 2011

## NOTE 39: Remuneration of Auditors

	12 months ended 31 July 2011	7 months ended 31 July 2010
	\$	\$
<i>Auditor of the parent entity</i>		
Audit and review of the financial reports of the entity	205,000	247,500
Audit of the financial report of overseas subsidiary <sup>(1)</sup>	25,000	27,500
Preparation of tax return	-	32,600
Information technology	-	25,000
General taxation services	17,000	-
	247,000	332,600

*The auditor of Funtastic Limited is Deloitte Touche Tohmatsu.*

<sup>(1)</sup> *Related practice of parent entity auditor.*

## NOTE 40: Parent entity disclosures

### Financial position

	31 July 2011	31 July 2010
	\$'000	\$'000
<i>Assets</i>		
Current assets	84,325	97,020
Non-current assets	79,645	90,237
	163,970	187,257
<i>Liabilities</i>		
Current liabilities	119,646	27,086
Non-current liabilities	9,745	87,643
	129,391	114,729
<i>Equity</i>		
Issued capital	159,377	159,377
Accumulated losses	(123,755)	(87,745)
<i>Reserves</i>		
Currency translation	-	-
Equity-settled benefits	1,474	1,368
Cash flow hedging	(2,517)	(472)
	34,579	72,528

### Financial performance

	12 months ended 31 July 2011	7 months ended 31 July 2010
	\$'000	\$'000
Loss for the year	(36,010)	(1,155)
Other comprehensive income	(1,939)	68
Total comprehensive income	(37,949)	(1,087)

# Notes to the Financial Statements

31 July 2011

## NOTE 40: Parent entity disclosures (continued)

### Commitments for expenditure

	31 July 2011	31 July 2010
	\$'000	\$'000
<i>Lease commitments</i>		
Not later than one year	2,506	2,294
Later than one year but not later than two years	7,668	7,589
Later than two years but not later than five years	1,469	3,244
	11,643	13,127
<i>License guarantee commitments</i>		
Not later than one year	2,147	1,506
Later than one year but not later than two years	377	391
Later than two years but not later than five years	112	72
	2,636	1,969

## NOTE 41: Subsequent events

In September 2011, the Group secured an extension of its financing arrangements with its senior lender, National Australia Bank, to 31 August 2013. Pursuant to the renegotiation, the lender has introduced certain financial covenants, including amortisation of the commercial bills facility (including repaying \$10,000,000 of borrowings in the 2012 financial year, \$2,000,000 of which was repaid on 31 August 2011) and with no dividend payments permitted during the period through to maturity.

There has not been any matter or circumstance occurring subsequent to the end of the financial period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## NOTE 42: General information

Funtastic Limited (the Company) is a limited company incorporated in Australia. The addresses of its registered office and principal place of business are disclosed in the introduction to the annual report. The principal activities of the Company and its subsidiaries (the Group) are described in note 4.

## Additional stock exchange information as at 14 September 2011

### Distribution of equity securities

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

Range	Ordinary Shares		
	Holders	Options	Performance share rights
1 – 1,000	856	-	-
1,001 – 5,000	1,800	-	-
5,001 – 10,000	782	-	1
10,001 – 100,000	943	-	-
100,001 and over	131	2	-
	4,512	2	1

There are 439 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 <LAUREN MATHIESON FAMILY A/C>	83,605,620	24.52
BELL POTTER NOMINEES LTD <BB NOMINEES A/C>	48,466,276	14.21
J P MORGAN NOMINEES AUSTRALIA LIMITED	19,581,904	5.74
NATIONAL NOMINEES LIMITED	18,246,295	5.35
CITICORP NOMINEES PTY LIMITED	17,669,119	5.18
	187,569,214	55.00

Additional stock exchange information as at 14 September 2011

Twenty largest quoted equity security holders

		Shares	%
1	KOOYONGKOOT PTY LTD <LAUREN MATHIESON FAMILY A/C>	83,605,620	24.52
2	BELL POTTER NOMINEES LTD <BB NOMINEES A/C>	48,466,276	14.21
3	J P MORGAN NOMINEES AUSTRALIA LIMITED	19,581,904	5.74
4	NATIONAL NOMINEES LIMITED	18,246,295	5.35
5	CITICORP NOMINEES PTY LIMITED	17,669,119	5.18
6	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	12,330,457	3.62
7	ARCHER CAPITAL 4C PTY LTD <ARCHER CAPITAL 4C A/C>	7,707,128	2.26
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,390,097	1.87
9	RENSH PTY LTD	6,000,000	1.76
10	DDVM SUPERANNUATION NOMINEES PTY LTD <DDVM SUPERANNUATION FUND>	5,700,438	1.67
11	STANLEY STREET PTY LTD	5,060,862	1.48
12	BOND STREET CUSTODIANS LIMITED <RXN - V42494 A/C>	4,613,995	1.35
13	ARCHER CAPITAL 4A PTY LTD <ARCHER CAPITAL 4A A/C>	4,343,792	1.27
14	ARCHER CAPITAL 4B PTY LTD <ARCHER CAPITAL 4B A/C>	4,343,790	1.27
15	MR HOD PIZEM	4,000,000	1.17
16	MR CHRISTOPHER IAN WALLIN & MS FIONA KAY WALLIN <CHRIS WALLIN SUPERFUND A/C>	3,192,494	0.94
17	MR NIR PIZMONY & MRS MARIA LUTGARDA PIZMONY <PIZMONY FAMILY SUPERFUND AC>	2,929,688	0.86
18	HOLDREY PTY LTD <THE DON MATHIESON FAMILY A/C>	2,076,254	0.61
19	DOWNS FAMILY PTY LTD <S & L DOWNS SUPER FUND A/C>	1,742,690	0.51
=20	MRS REBECCA ANNE WILKINSON <ANDERSON WILKINSON FAM A/C>	1,555,870	0.46
=20	WISEMAN WIEGARD PTY LTD <THE CRUSTY WIEGARD S/F A/C>	1,555,870	0.46
		261,112,639	76.56

# Additional stock exchange information as at 14 September 2011

Unquoted equity securities	Number on Issue	Number of holders
Options issued under the Funtastic Executive Share Option Plan	5,000,000	2
Performance share rights issued under the Funtastic Employee Performance Share Rights Plan	10,000	1
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.