Appendix 4D

Half-year report for the half-year ended 31 January 2012

Appendix 4D – Half-year Report

Name of Entity:	Funtastic Limited
ABN:	94 063 886 199
Current Financial Period Ended:	Six months to 31 January 2012
Previous Corresponding Reporting Period (pcp):	Six months to 31 January 2011

Results for Announcement to the Market

	Half Year 2012 $'000	**Half Year 2011 $'000**	**Variance $'000**	**% increase/ (decrease) over pcp**
Continuing operations				
Revenue from continuing operations	88,053	98,683	(10,630)	(10.8%)
Earnings before interest, taxation, depreciation, amortization (EBITDA)	**10,608**	**4,971**	**5,637**	**>100%**
Net Profit/(Loss)				
Net profit for the period from continuing operations	5,514	366	5,148	>100%
Net loss for the period from discontinuing operations	-	-		n/a
Net profit for the period attributable to members of Funtastic Limited	**5,514**	**366**	**5,148**	**>100%**
Earnings per share				
From continuing and discontinued operations				
Basic (cents per share)	1.62	0.11	1.51	>100%
Diluted (cents per share)	1.52	0.10	1.42	>100%
From continuing operations				
Basic (cents per share)	1.62	0.20	1.42	>100%
Diluted (cents per share)	1.52	0.20	1.32	>100%

Dividends

	Amount per Security	**Franked amount per security**
Interim Dividend	Nil	Nil
Previous Corresponding Period	Nil	Nil

Refer to the attached Review of Operations in order to understand these reported figures.

TABLE OF CONTENTS

Directors	Shane Tanner *Chairman and Independent Non-Executive Director*
	Stewart Downs *Managing Director and Chief Executive Officer*
	Nir Pizmony *Executive Director*
	Paul Wiegard *Executive Director*
	Craig Mathieson *Non-Executive Director*
	Stephen Heath *Independent Non-Executive Director*
	Linda Norquay *Independent Non-Executive Director*
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 535 Bourke Street Melbourne Vic 3000
Solicitors	Freehills 101 Collins Street Melbourne Vic 3000

Directors' Report

The Directors of Funtastic Limited submit herewith the financial report of Funtastic Limited and its subsidiaries (the Group) for the half-year ended 31 January 2012. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

The names of the Directors of the Company during or since the end of the half-year are:

- Mr. Shane Tanner
- Mr. Stewart Downs
- Mr. Craig Mathieson
- Mr. Nir Pizmony
- Mr. Paul Wiegard (appointed 24 October 2011)
- Mr. Stephen Heath
- Ms. Linda Norquay (appointed 2 September 2011)

The Directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

Review of operations

The table below details the contributions from the Group and the effect on the reported results.

	31 January 2012	31 January 2011	Variance	
	$'000	$'000	$'000	%
Group Revenue	**88,053**	**98,683**	**(10,630)**	**(10.8)**
Group EBITDA	**10,608**	**4,971**	**5,637**	**>100**
Group Net Profit	**5,514**	**366**	**5,148**	**>100**

Key factors since the 31 July 2011 year end include the following:

- Substantially improved profitability;
- Achievement of cost reduction plan;
- Acquisition of Pillow Pets and LEGO® licenses;
- Reduction of debt;
- Significant reduction in inventory.

The Group substantially improved profitability during the period, generating net profit of $5,514,000 which compares with $366,000 for the corresponding period in the prior year. These profits were achieved in spite of the fact that revenues reduced by $10,630,000 to $88,053,000.

The business has successfully executed on its planned cost base reduction. The reset cost base is now appropriate for the revenues being generated from the rationalised product and brand portfolio.

Since 31 July 2011, the business further strengthened its intellectual property portfolio by successfully concluding the two transactions detailed below. Both of these transactions serve to underpin the Group's strategic future by substantially increasing its ability to develop and own its own intellectual property. They also ensure that the Group's reliance on the Australian distribution business is reduced in the future; the transaction details are:

- Pillow Pets, in which Funtastic acquired the worldwide intellectual property rights (excluding the US, Canada, China and Hong Kong) to the Pillow Pets™ and My Pillow Pets™ brands; and

- the rights to manufacture and distribute certain LEGO® licensed product throughout Australia, New Zealand, USA, Canada, United Kingdom, Germany, Austria, Switzerland, Finland, Sweden, Norway, Denmark, Iceland, France, Belgium, Netherlands, Luxembourg; and through Toys R Us stores in China, Hong Kong, Taiwan, Philippines, Thailand, Singapore and Malaysia. This transaction completed on March 9, 2012.

During the first half, the company repaid $5,000,000 of debt in line with its obligations under its senior facilities agreement with National Australia Bank.

The business was also successful in reducing its inventory holdings by 22% from $22,162,000 in July 2011 to $17,190,000 as at 31 January 2012.

Significant Changes in the State of Affairs

There has been no significant change in the state of affairs of the Group during the period, or subsequent to the end of the period.

Outlook

Whilst the financial results for the first half have been very encouraging, the period has not been without its challenges. The difficulties of the broader retail environment have been well documented and Funtastic has experienced lower than expected demand from two key retailers which has impacted revenues for Toys & Lifestyle Merchandise and Entertainment.

Consequently, the Board remains cautious on the outlook for the remainder of the year. Although demand for the Group's brands is currently solid, the Board's view is that consumers remain wary which is leading to unpredictable retailer behavior. Against the backdrop of a nervous retail environment, the Board remains concerned as to the impact which further shocks to the system could have on retailer buying patterns.

The Board is very comfortable with the revised domestic product and brand portfolio with the standout brands being Leapfrog, SBS and Power Rangers. Recently the business has elected to exit poor performing or secondary brands, the product selection criteria is now based on brand strength, innovation and value which appears to be consistent with current consumer sentiment. The business has also substantially secured the product pipeline for the next 18 months with recently announced new brand Winx launching in August, as well a further 3 new brands launching in the first half of the next financial year.

Outside Australia, the Board is encouraged that the recently announced transactions, in respect of Pillow Pets and LEGO® licensed product, provide excellent opportunities to expand the Group's revenue base internationally and reduce reliance on domestic markets. The Pillow Pets business is soon to be further expanded through significant licensing deals with local and global sporting clubs and also with character properties which will be announced shortly.

Shareholders should take comfort from the fact that whilst the retail environment remains challenging, Funtastic management have implemented a solid strategy and are well progressed on executing these initiatives.

Dividend

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.

Auditor's independence declaration

The auditor's independence declaration is included on page 8 of the half-year report.

Financing Arrangements

The Group successfully renegotiated its borrowings with its senior lender on 21 September 2011.

Pursuant to the renegotiation of its borrowings, maturity of the facilities has been extended to 31 August 2013 with certain financial and non financial undertakings being introduced. These include the amortisation of the commercial bills facility (in particular repaying $10,000,000 of borrowings in the 2012 financial year, $2,000,000 of which was repaid on 31 August 2011 and $3,000,000 of which was repaid on 30 December 2011, with the remaining $5,000,000 due for repayment in June 2012) and with no dividend payments permitted during the period through to maturity. A further $5,000,000 is required to be repaid on or before 31 December 2012.

Up to and including the date of signing this report, all the financial covenants associated with the renegotiated borrowings have been met.

Legal Issues

In February 2012 Funtastic resolved the legal proceedings between it, Australia Horizons Trading Pty Limited (AHT) and Jeffrey Moss. These proceedings were commenced following the sale by Funtastic of its apparel business to AHT, a company of which Mr Moss was the sole director and shareholder. Mr Moss guaranteed certain payments to be made by AHT to Funtastic.

Funtastic sued AHT (and Mr Moss on the guarantee) for breach of contract in connection with the earn out on the sale of the apparel business. Mr Moss counterclaimed, alleging that he had been misled into signing the guarantee.

The proceedings have been resolved with a financial settlement in Funtastic's favour and orders made by the Supreme Court of Victoria that Mr Moss' counterclaim be dismissed and that the proceeding otherwise be dismissed with a right of reinstatement to enforce the terms of settlement.

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 Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Future Developments

At the date of this report, there are no likely developments in the operations of this company required to be reported in accordance with section 299(1)(e) of the *Corporations Act 2001* other than as mentioned in this report.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the *Corporations Act 2001*.

Shane Tanner
Chairman
Melbourne, 27 March 2012

Deloitte.

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

27 March 2012

Dear Board Members

Auditors Independence Declaration - 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 review of the financial statements of Funtastic Limited for the half-year ended 31 January 2012, 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 review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Patrick McLay
Partner
Chartered Accountants

Condensed Consolidated Statement of Comprehensive Income for the Half-Year Ended 31 January 2012

	Note	Half-year 31 January 2012 $'000	31 January 2011 $'000
Continuing Operations			
Revenue		**88,053**	98,683
Cost of sale of goods		**(52,356)**	(62,743)
Gross profit		**35,697**	35,940
Warehouse and distribution		**(6,710)**	(8,021)
Marketing and selling		**(14,106)**	(17,351)
Administration and finance		**(4,273)**	(5,002)
Impairment and restructuring costs	3	**-**	(595)
Earnings before interest, taxation, depreciation and amortisation (EBITDA)		**10,608**	4,971
Depreciation and amortisation expenses		**(1,182)**	(857)
Finance costs		**(3,768)**	(3,679)
Profit before income tax		**5,658**	435
Income tax (expense)/benefit		**(144)**	261
Profit for the period from continuing operations		**5,514**	696
Discontinued operations			
Loss for the period from discontinued operations	2	**-**	(330)
Profit for the period		**5,514**	366
Other comprehensive income (net of tax)			
Exchange differences arising on translation of foreign operations		**222**	(141)
Gain/(Loss) on cash flow hedges taken to/transferred from equity		**571**	(400)
		793	(541)
Total comprehensive income attributable to members of Funtastic Limited		**6,307**	(175)
Earnings per share		**Cents**	**Cents**
From continuing and discontinued operations:			
Basic (cents per share)	7	**1.62**	0.11
Diluted (cents per share)	7	**1.52**	0.10
From continuing operations:			
Basic (cents per share)	7	**1.62**	0.20
Diluted (cents per share)	7	**1.52**	0.20

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes

Condensed Consolidated Balance Sheet as at 31 January 2012

	Note	31 January 2012 $'000	31 July 2011 $'000
Current Assets			
Cash and cash equivalents		**2,521**	1,948
Trade and other receivables		**28,371**	27,254
Inventories		**17,190**	22,162
Other		**18,974**	18,539
Total Current Assets		**67,056**	69,903
Non-Current Assets			
Property, plant and equipment		**2,823**	2,629
Goodwill		**69,234**	68,054
Other intangibles		**5,501**	3,335
Deferred tax assets		**12,533**	12,520
Other		**300**	-
Total Non-Current Assets		**90,391**	86,538
Total Assets		**157,447**	156,441
Current Liabilities			
Trade and other payables		**15,554**	14,202
Borrowings	6	**9,936**	80,859
Provisions		**3,856**	6,734
Deferred purchase consideration	10	**3,301**	1,320
Other		**8,970**	9,524
Current tax liabilities		**252**	172
Other financial liabilities		**2,782**	3,597
Total Current Liabilities		**44,651**	116,408
Non-Current Liabilities			
Borrowings	6	**65,714**	-
Provisions		**1,267**	1,440
Deferred tax liabilities		**4,655**	4,410
Other		**892**	985
Total Non-Current Liabilities		**72,528**	6,835
Total Liabilities		**117,179**	123,243
Net Assets		**40,268**	33,198
Equity			
Issued capital		**160,069**	159,377
Accumulated losses		**(118,655)**	(124,169)
Reserves		**(1,146)**	(2,010)
Total Equity		**40,268**	33,198

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Changes in Equity for the Half-Year Ended 31 January 2012

	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 August 2010	159,377	(85,964)	(1,048)	1,374	(479)	73,260
Profit for the period	-	366	-	-	-	366
Other comprehensive loss	-	-	(141)	-	(400)	(541)
Total comprehensive income	-	366	(141)	-	(400)	(175)
Recognition of share-based payments	-	-	-	64	-	64
Balance at 31 January 2011	**159,377**	**(85,598)**	**(1,189)**	**1,438**	**(879)**	**73,149**
Balance at 1 August 2011	159,377	(124,169)	(966)	1,474	(2,518)	33,198
Profit for the period	-	5,514	-	-	-	5,514
Other comprehensive gain	-	-	222	-	571	793
Total comprehensive income	-	5,514	222	-	571	6,307
Recognition of share-based payments	-	-	-	71	-	71
Issue of ordinary shares	696	-	-	-	-	696
Share issue costs	(4)	-	-	-	-	(4)
Balance at 31 January 2012	**160,069**	**(118,655)**	**(744)**	**1,545**	**(1,947)**	**40,268**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed Consolidated Cash Flow Statement for the Half-Year Ended 31 January 2012

	Half-year	
	31 January 2012	31 January 2011
	$'000	$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	**95,741**	114,859
Payments to suppliers and employees (inclusive of GST)	**(83,441)**	(107,967)
Income taxes paid	**(65)**	(129)
Interest and other costs of finance paid	**(3,834)**	(3,753)
Net cash provided by operating activities	**8,401**	3,010
Cash flows from investing activities		
Interest received	**27**	70
Proceeds on disposal of property, plant and equipment	**-**	8
Payments for acquisition of businesses	**(377)**	-
Payments for property, plant and equipment	**(262)**	(456)
Proceeds from sale of businesses	**450**	-
Payments for intangible assets	**(1,368)**	(946)
Net cash used in investing activities	**(1,530)**	(1,324)
Cash flows from financing activities		
(Repayment of)/Proceeds from borrowings	**(697)**	**834**
Repayment of commercial bills	**(5,000)**	-
Borrowings transaction costs	**(600)**	**(588)**
Share issue transaction costs	**(4)**	-
Net cash (used in) / provided by financing activities	**(6,301)**	246
Net increase in cash held	**570**	1,932
Cash and cash equivalents at the beginning of the half-year	**1,948**	972
Effect of exchange rate changes on cash held in foreign currencies	**3**	227
Cash and cash equivalents at the end of the half-year	**2,521**	3,131

The above condensed consolidated cash flow statement should be read in conjunction with the accompanying notes.

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB134 *Interim Financial Reporting*. Compliance with AASB134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

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 directors' report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's annual financial report for the financial year ended 31 July 2011, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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 their operations and effective for the current reporting period.

There are no new and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group.

The adoption of all the new and revised Standards and Interpretations has not resulted in any change to the Group's accounting policies and has no effect on amounts reported for the current and prior periods. The new and revised Standards and Interpretations has not had a material impact and not resulted in change to the Group's presentation of, or disclosure in, its half-year financial statements.

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 material uncertainty whether the Group will continue as a going concern:

- 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.
- Whilst the Group returned to profitability and had positive operating cash flows during the half-year period achieving a profit after tax of $5,514,000 and cash inflows from operations of $8,401,000, the Group made a loss for the year ended 31 July 2011 of $38,205,000.
- In September 2011, the Group successfully extended the maturity date of its financing arrangements to 31 August 2013. The Group is now required to comply with certain financial and non financial undertakings, which include principal repayments totalling $10,000,000 of its commercial bills facility by 31 December 2012 and precludes the payment of dividends during the facility period.

The ability of the Group to continue as a going concern is dependent on its ability to generate sufficient funds from its operating activities, manage its working capital accordingly and operate within the requirements of its banking facilities, which includes principal repayments totalling $10,000,000 by 31 December 2012.

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

- 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 undertakings. The range of impacts has been appropriately considered and reflected within the Group's forecasts and the Directors' assessment of going concern.
- Management has prepared, and the Directors have reviewed and approved, detailed financial forecasts for the 12 months ending 31 March 2013. 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 $5,000,000 of its commercial bills with its senior lender during the period. 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 Group has the continuing support of its bankers and has successfully extended its financing arrangements to 31 August 2013.
- The Group has improved its financial position from that of the prior year, with the balance sheet returning to a positive current ratio, with current assets exceeding current liabilities by $22,405,000 at 31 January 2012, the Group trading profitably and generating positive operating cash flows.

However, notwithstanding these reasons, in the event that:

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

there is material uncertainty whether the Group will be able to continue as a going concern and, therefore, whether it will realise its assets and extinguish its 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 not continue as a going concern.

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 period.

- *Impairment of goodwill in continuing business segments*

The Group tests annually or when there is an indication of significant impairment whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amount of each cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of assumptions. A significant change to these assumptions may affect the recoverable amount of the cash generating units.

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

- *Settlement of licence audits*

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

- *Recoverability of inventory*

The Group periodically assesses whether the net realizable value (NRV) of its inventories is reasonable in light of changing market conditions, particularly 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 realized, the final amounts will be subject to the prevailing market conditions and may differ from the amounts provided.

NOTE 2: 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 confectionery. The International reportable segment designs and sources unique product offerings for worldwide distribution. The Entertainment reportable segment distributes licensed film 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 periods under review:

		Revenue		**Segment profit**	
		Half-year ended		**Half-year ended**	
	Note	**31 January 2012**	31 January 2011	**31 January 2012**	31 January 2011
		$'000	$'000	**$'000**	$'000
Continuing operations					
Toys and Lifestyle Merchandise		**56,088**	58,857	**7,747**	2,163
International		**4,009**	8,273	**36**	128
Entertainment		**27,053**	29,188	**6,003**	5,674
Other		**1**	2,136	**-**	51
		87,151	98,454	**13,786**	8,016
Other revenue		**902**	229	**-**	-
Central administration		**-**	-	**(3,178)**	(2,450)
Finance costs		**-**	-	**(3,768)**	(3,679)
Depreciation & amortization		**-**	-	**(1,182)**	(857)
Impairment & restructuring costs	**3**	**-**	-	**-**	(595)
Continuing segment revenue and profit before income tax for the period		**88,053**	98,683	**5,658**	435
Discontinued operations					
Softgoods		**-**	-	**-**	(330)
Discontinued segment revenue and loss before income tax for the period		**-**	-	**-**	(330)
Consolidated segment revenue and profit before tax		**88,053**	98,683	**5,658**	105
Income tax (expense)/benefit (continuing and discontinued operations)		**-**	-	**(144)**	261
Consolidated segment revenue and profit after tax for the period		**88,053**	98,683	**5,514**	366

NOTE 2: 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.

NOTE 3: Impairment and restructuring costs

	Half-year	
	31 January 2012 $'000	31 January 2011 $'000
Corporate restructuring costs*	-	595
	-	595

* - Costs in relation to the implementation of the Group's turnaround strategy.

NOTE 4: Net tangible assets

	Half-year	
	31 January 2012	31 January 2011
Net tangible asset backing per ordinary security	**(9.91) cents**	(1.88) cents

NOTE 5: 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 half-year, the directors have not declared a dividend for the half-year ended 31 January 2012 (2011: Nil).

NOTE 6: Borrowings

The Group successfully renegotiated its borrowings with its senior lender on 21 September 2011.

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 during the 2012 calendar year) and with no dividend payments permitted during the period through to maturity.

	31 January 2012 $'000	31 July 2011 $'000
Secured – at amortised cost		
Current		
Commercial bills	**10,000**	33,600
Debtors finance	**-**	24,165
Trade finance	**-**	23,094
	10,000	80,859
Less: deferred transaction costs	**(64)**	-
Total Current	**9,936**	80,859
Non-current		
Commercial bills	**29,600**	-
Debtors finance	**24,245**	-
Trade finance	**12,293**	-
	66,138	-
Less: deferred transaction costs	**(424)**	-
Total Non-current	**65,714**	-

NOTE 7: Earnings per share

	31 January 2012 $'000	31 January 2011 $'000
Earnings used in the calculation of basic continuing and discontinued operations earnings per share reconciles to net profit in the statement of comprehensive income	**5,514**	366
Earnings used in the calculation of basic continuing operations earnings per share reconciles to net profit in the statement of comprehensive income	**5,514**	696
Earnings per share	**Cents**	Cents
From continuing and discontinued operations:		
Basic (cents per share)	**1.62**	0.11
Diluted (cents per share)	**1.52**	0.10
From continuing operations:		
Basic (cents per share)	**1.62**	0.20
Diluted (cents per share)	**1.52**	0.20
	Number	Number
Weighted average number of ordinary shares outstanding during the half-year used in the calculation of basic earnings per share.	**341,301,907**	340,997,682
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share.	**361,311,907**	354,145,491

NOTE 8: Issued capital

	31 January 2012 $'000	31 January 2011 $'000
Share Capital		
347,956,819 fully paid ordinary shares (2011: 340,997,682)	**160,069**	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 January 2012		31 January 2011	
Details	**Number of Shares '000**	**$'000**	Number of Shares '000	$'000
Movements in Ordinary Share Capital				
Opening balance	**340,998**	**159,377**	340,998	159,377
Share issue to CJ Products, LLC	**6,959**	**696**	-	-
Share issue costs	**-**	**(4)**	-	-
Closing balance	**347,957**	**160,069**	340,998	159,377

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

Share Issue to CJ Products, LLC

On 23 January 2012, the Company executed an asset sale agreement pursuant to which it agreed to issue 6,959,137 shares at 10c as part consideration for the purchase of worldwide intellectual property rights (excluding intellectual property rights in the United States of America, Canada, Hong Kong and the Peoples Republic of China) to the Pillow Pets™ and My Pillow Pets™ brands ("Pillow Pets International Business").

NOTE 9: Commitments

There have been no material changes to the commitments disclosed in the most recent annual report.

NOTE 10: Deferred purchase consideration

Deferred purchase consideration comprises an earnout in relation to the acquisition of 100% of the issued share capital of NSR (HK) Limited ("NSR") in 2009. In settlement of this earnout, the Company issued 20,000,000 shares on 8 March 2012.

Deferred purchase consideration also includes US$850,000 in relation to the acquisition of the worldwide intellectual property rights to the Pillow Pets International Business.

NOTE 11: Key management personnel

Remuneration arrangements of key management personnel are disclosed in the annual financial report. No changes were made to remuneration arrangements during the interim period.

NOTE 12: Subsequent events

On 13 March 2012, the deal pursuant to which the Company acquired the business assets of Australian company KP Multinational Pty Ltd (KPM) completed. A significant component of this acquisition has seen Funtastic acquire a three year license from the LEGO Group to manufacture and distribute certain LEGO® licensed product throughout Australia, New Zealand, USA, Canada, United Kingdom, Germany, Austria, Switzerland, Finland, Sweden, Norway, Denmark, Iceland, France, Belgium, Netherlands, Luxembourg; and through Toys R Us stores in China, Hong Kong, Taiwan, Philippines, Thailand, Singapore and Malaysia.

The business was acquired under an earnout arrangement payable over 3 years; the minimum effective acquisition price will be $2.7m.

Directors' Declaration

The directors declare that:

(a) in the directors' opinion, and for the reasons outlined in note 1, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(b) 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.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors

Shane Tanner

Chairman

Melbourne, 27 March 2012

Deloitte.

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Funtastic Limited, which comprises the condensed consolidated balance sheet as at 31 January 2012, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 9 to 20.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 January 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Funtastic Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our review, 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 review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Funtastic Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 January 2012 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the conclusion expressed above, attention is drawn to Note 1 in the financial report which indicates that the consolidated entity returned to profitability and had positive operating cash flows during the half-year period. However the consolidated entity is now required to comply with certain financial and non financial undertakings imposed by its bankers, which include principal repayments totalling $10,000,000 of its commercial bills facility by 31 December 2012. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

DELOITTE TOUCHE TOHMATSU

Patrick McLay
Partner
Chartered Accountants
Melbourne 27 March 2012