

## **Appendix 4E**

### **Preliminary Final Report**

**Financial year ended 31 July 2012**



## 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 2012
<b>Previous Corresponding Reporting Period:</b>	Year ended 31 July 2011

### Results for Announcement to the Market

	\$'000	Percentage increase / (decrease) over previous corresponding period
Revenue from ordinary activities	170,693	(6.7)%
Net profit from ordinary activities after tax	10,436	n/m
Net profit from ordinary activities after tax attributable to members of Funtastic Limited	10,436	n/m

<b>Dividends</b>	<b>Amount per Security</b>	<b>Franked amount per security</b>
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

<b>Net Tangible Liabilities</b>	<b>31 July 2012</b>	<b>31 July 2011</b>
Net tangible liabilities per security	(3.2 cents)	(11.2 cents)

#### Other information

This report is based on the consolidated financial statements which have been audited by Deloitte Touche Tohmatsu.

For a brief explanation of any figures above please refer to the Announcement on the results for the year ended 31 July 2012 and the attached Annual Financial Report

n/m – not meaningful.

**Annual Report**  
**for the financial year ended**  
**31 July 2012**



**ACN 063 886 199**

## Message to Shareholders

### Introduction

On behalf of the Board of Directors of Funtastic Limited we present to you our 2012 Annual Report.

### The Period in Review

The twelve months ended 31 July 2012 mark a turning point in the fortunes of the company. Over the two prior years we have explained in some detail the actions we were taking to simplify and improve the business, the aim of which was obviously to return the business to profitability and for that profitability to be sustainable over the long term.

The Board are therefore delighted to be able to report that as a consequence of the hard work and difficult decisions, the company is once again profitable. The Group's reported result under IFRS was a profit after tax of \$10.4m. The Group's Earnings before Interest, Taxation, Depreciation and Amortisation expenses (EBITDA) for the year is a profit of \$20.2m, compared with a loss in the prior year of (\$29.1m).

These results are all the more gratifying considering that the retail environment both at home and abroad has remained extremely subdued. This performance is a strong endorsement of our strategy which is focussed on brands, value and innovation.

The following represent the key achievements during the year and how these position the business for the future.

- 1) The Group is poised for growth:
  - As a result of the two successful acquisitions of the PILLOW PETS™ brand and LEGO® licenses; and
  - Since our Funtastic Brands business has begun to expand into new international markets and the scope for further international growth is extensive.
- 2) The business has returned to profitability. The delivery of the turnaround was achieved through:
  - Rationalisation of the product portfolio;
  - Improvement in margins; and
  - By reducing the cost base.
- 3) The balance sheet has been strengthened through:
  - The successful capital raising which delivered \$23.6m (net of costs of issue (Note 27);
  - Repayment of \$20m of debt during the year; and
  - A reduction of inventories of \$6.1m (28%)

In addition to the above, the company also reached a settlement during the year of the legal dispute with Australian Horizons Trading Pty Limited and Jeffrey Moss.

### Outlook

The Board's view is that the broader retail environment will remain challenging both domestically and abroad for the foreseeable future. However the ongoing fortunes of Funtastic are not dependent on a retail revival. In each of our businesses we have good reason to be optimistic about our prospects.

Funtastic Australia continues to experience growth, from its major brands of LeapFrog, LEGO® and PILLOW PETS™. This is expected to be enhanced through the launch of 6 exciting new brands during the next twelve months contrasts with just 2 new launches during the year ended 31 July 2012.

The Funtastic Brands business (formerly International) will deliver strong growth from expansion into new markets principally with PILLOW PETS™ and LEGO®. This growth will come from the annualisation of sales to new markets commenced in the 2011/12 financial year as well as sales to as yet untapped markets during 2012/13.

The Madman business operates in an industry which faces a number of challenges as the strength of DVD as a format is diminishing and a number of new digital channels to market are emerging. Madman is performing well above the industry average which is due to the more niche characteristics of the Madman catalogue. Additionally Madman has invested to ensure it can do business with all the emerging channels including being approved by iTunes as an official aggregator during the last six months. Additionally the pipeline of new product which Madman will bring to market during the next 12-18 months is the strongest we have ever had.

In light of the above, the Board are confident that Management will build on the return to profitability in 2011/12 and deliver further earnings growth in 2012/13. The Board reaffirm previously communicated EBITDA Earnings guidance for 2012/13 of \$23m-25m. 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 2012, the Group secured an extension of its financing arrangements

with its senior lender, National Australia Bank to 31 October 2013. The ongoing support of the National Australia Bank is extremely pleasing, indeed the bank have been extremely supportive of Funtastic throughout the difficult turnaround period.

The Directors would like to thank all of our staff, shareholders, suppliers and customers for their ongoing loyalty and support.



**Shane Tanner**  
Chairman of the Board



**Stewart Downs**  
Managing Director

## TABLE OF CONTENTS

---

Company Information .....	6
Corporate Governance Statement .....	7
Directors' Report .....	13
Remuneration Report .....	21
Auditor's Independence Declaration .....	30
Independent Auditor's Report .....	32
Director's Declaration .....	33
Consolidated Statement of Comprehensive Income for the Year Ended 31 July 2012 .....	34
Consolidated statement of financial position as at 31 July 2012 .....	35
Consolidated Statement of Changes in Equity for the year ended 31 July 2012 .....	36
Consolidated Statement of Cash Flows for the year ended 31 July 2012 .....	37
Notes to the Financial Statements 31 July 2012 .....	38
NOTE 1: Application of new and revised Accounting Standards .....	38
NOTE 2: Significant accounting policies .....	41
NOTE 3: Critical accounting judgments and key sources of estimation uncertainty .....	49
NOTE 4: Segment information .....	49
NOTE 5: Revenue .....	51
NOTE 6: Impairment and restructuring costs .....	52
NOTE 7: Profit / (Loss) for the year .....	54
NOTE 8: Income tax .....	55
NOTE 9: Finance Costs .....	57
NOTE 10: Current assets – Trade and other receivables .....	57
NOTE 11: Current assets – Inventories .....	58
NOTE 12: Current assets – Other .....	59
NOTE 13: Current tax liabilities .....	59
NOTE 14: Current assets – Other financial assets .....	59
NOTE 15: Non-current assets – Property, plant and equipment.....	59
NOTE 16: Non-current assets – Goodwill .....	61
NOTE 17: Non-current assets – Other intangibles .....	62
NOTE 18: Non-current assets – Other financial assets .....	64
NOTE 19: Assets pledged as security .....	64
NOTE 20: Current Liabilities – Trade payables .....	64
NOTE 21: Borrowings .....	65
NOTE 22: Provisions .....	66
NOTE 23: Deferred purchase consideration .....	66

## TABLE OF CONTENTS

---

NOTE 24: Other Liabilities	67
NOTE 25: Other financial liabilities	67
NOTE 26: Leasing arrangements	68
NOTE 27: Issued Capital	68
NOTE 28: Accumulated losses	70
NOTE 29: Reserves	70
NOTE 30: Earnings per share	72
NOTE 31: Dividends	73
NOTE 32: Lease Commitments	73
NOTE 33: Operating Leases	74
NOTE 34: Subsidiaries	75
NOTE 35: Acquisition of businesses	78
NOTE 36: Notes to the cash flow statements	79
NOTE 37: Financial Instruments	80
NOTE 38: Share-based payments	87
NOTE 39: Key management personnel compensation	92
NOTE 40: Related party transactions	92
NOTE 41: Remuneration of Auditors	98
NOTE 42: Parent entity disclosures	99
NOTE 43: Subsequent Events	100
NOTE 44: Contingent Liabilities	101
NOTE 45: General Information	101
Additional stock exchange information as at 18 <sup>th</sup> September 2012	102

## Company Information

**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** Boardroom 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** Clarendon Lawyers  
Level 17, Rialto Tower  
525 Collins Street  
Melbourne VIC 3000



# Corporate Governance Statement

## 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 2012 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 three executive directors (the Managing Director/Chief Executive Officer, the Executive Director and Managing Director Madman Entertainment). The details of each

director's qualifications, experience and skills are set out on page 13 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 seven 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.

## Corporate Governance Statement

---

Mr Stewart Downs, Mr Nir Pizmony and Mr Paul Wiegard 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 four non-executive directors. Mr Craig Mathieson is the chairman of the committee. The Board considers that three 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 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.

# Corporate Governance Statement

## 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 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.

## Diversity

The board fully understands the need to achieve gender diversity within the organisation and as such is currently formulating a corporate policy that addresses the opportunity. The company will publish the Policy on completion on its company website and lodge with the ASX in the coming months.

## 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 fulfil the responsibilities and duties expected of them.

# Corporate Governance Statement

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;

## Corporate Governance Statement

- 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

The internal audit function is absorbed within the head office finance function. The finance function is able 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.

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 Stephen Heath (Chairman), Craig Mathieson, Shane Tanner 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.

# Corporate Governance Statement

---

## 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 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

### Director's Report

#### 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 2012.

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

Director	Particulars
<b>Shane Tanner</b> 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>
<b>Stewart Downs</b> 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>
<b>Craig Mathieson</b> 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 the Business Banking division of ANZ Bank and the Property Finance division of St George Bank.</p>
<b>Nir Pizmony</b> 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. Mr Pizmony's knowledge and reputation in the toy industry is well proven both in Australia and globally.</p>
<b>Paul Wiegard</b> Executive Director	<p>Appointed to the Board in October 2011, Mr Wiegard is a founder and joint Managing Director of Madman Entertainment, the leading independent theatrical, rights management and home entertainment company in Australasia and a division of Funtastic. Mr Wiegard is also a Board member of the Australian Video Software Distributors, the Melbourne International Film Festival and the Australian Independent Distributors Association. Paul brings an impressive depth of knowledge and experience of the entertainment industry.</p>

## Directors' Report

---

### **Stephen Heath**

Independent Non-executive director

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 Chairman of the Remuneration and Evaluation Committee.

Stephen has extensive retail experience comprising 18 years across iconic Australian Retail Brands including Harvey Norman, Rebel Sport, and Godfreys. Mr Heath was previously Managing Director of International Cleaning Solutions Holdings which has retail and wholesale interests in Australia, N.Z, and the UK. Prior to this Mr Heath was CEO of Rebel Sport during its public listing on the ASX. Mr Heath also spent 5 years with Sharp Corporation managing the retail accounts of major retailers such as Harvey Norman, Myers, David Jones & Kmart.

### **Linda Norquay**

B.Com, CA, GAICD

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.

Mr Norquay is currently Chief Financial Officer at Illyria Pty. Ltd. Ms Norquay 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 was a member of the Audit, Risk and Compliance Committee, the Nomination Committee and Chairman of the Remuneration and Evaluation Committee.

Mr Flintoft resigned effective 2 September 2011.



## Directors' Report

---

### 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 Eye Institute Ltd	2004 to current
	Paragon Care Limited	2005 to current
Craig Mathieson	Great Western Exploration Ltd	2011 to current

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

### Subsequent events

The Group negotiated an extension to its financing arrangements in September 2012 to 31 October 2013, as at balance date they were contractually due to be repaid on 31 August 2013.

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.

## Directors' Report

### Review of operations

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

	Year Ended 31 July 2012 \$'000	Year Ended 31 July 2011 \$'000
<b>Revenue</b>	<b>170,693</b>	182,917
<b>EBITDA</b>	<b>20,199</b>	(29,058)
<b>Net Profit After Tax (NPAT)</b>	<b>10,436</b>	(38,205)

Key actions which resulted in the return to profitability for the year ended 31 July 2012, include the following:

- The successful acquisitions of the PILLOW PETS™ Brand and LEGO® licenses;
- Expansion into new international markets;
- Rationalisation of the product portfolio;
- Improvement in margins; and
- Reduction in the cost base;

In addition the Group strengthened its balance sheet by:

- Successful capital raising of \$23.6m (net of costs of issue (Note 27));
- Reduction in core debt of \$20m; and
- A reduction in inventories of \$6.1m (28%);

### Outlook

Whilst the general retail environment is expected to remain subdued both at home and overseas for the foreseeable future, the Board are confident in the Group's prospects.

*Funtastic Australia (formerly referred to as Toys & Sporting)*

2011/12 saw the first fruits of the labours of a two year turnaround effort. These results were achieved with the introduction of only 2 new products, in contrast the business will launch 6 new brands in 2012/13 and will benefit from a full year of PILLOW PETS™ as well as a number of exciting PILLOW PETS™ range extensions.

*Funtastic Brands (formerly referred to as International)*

The Brands business has successfully launched PILLOW PETS™ into 14 international markets during 2011/12 and have a further 3 launches in the Asian market planned for Quarter 1 as well as additional launches into South America, Eastern Europe and Russia during the course of Quarter 2 and 3. In addition to the strength of this brand, the business has also seen strong growth from its LEGO® licensed products. With new LEGO® products coming on stream in 2012/13, the next 12 months for this business will see very solid growth.

*Madman Entertainment*

Madman has outperformed the industry in 2011/12 in a challenging market. Madman has adapted well to the changing industry landscape and is well poised to capitalise further on the emerging digital delivery channels as they become more established. In addition, the content pipeline which Madman has now to support the next 12-18 months is as strong as at any point in the company's history.

## Directors' Report

### Financing Arrangements

The Group recently extended the maturity of its financing arrangements until 31 October 2013. The agreement provides for amortisation of \$10,000,000 during the 2012/13 financial year.

### Dividends

During and since the end of the year, the Directors have not declared or paid a dividend for the year ended 31 July 2012 (2011: nil). However, in accordance with the amended Facilities Agreement (Agreement) between the Company and its senior lender National Australia Bank, the Company is no longer precluded from declaring and paying dividends during the term of the Agreement provided certain financial conditions are met. Accordingly, the directors anticipate the re-introduction of dividend payments during the 2012/13 financial year.

### 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 and Financial Statements 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.

#### 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	200,000	Ordinary	\$0.44	02/09/2013
Funtastic Limited	4,000,000	Ordinary	\$0.135	10/08/2014
Funtastic Limited	1,000,000	Ordinary	\$0.207	01/04/2015
<b>Total ESOP</b>	<b>5,200,000</b>			

##### (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
<b>Total Ordinary Options</b>	<b>1,500,000</b>			

### 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. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

## Directors' Report

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 2012 and the number of meetings attended by each director were:

	Board of directors		Audit, Risk and Compliance Committee	
	A	B	A	B
S Tanner	12	12	3	3
S Downs	12	12	N/A	N/A
C Mathieson	11	12	3	3
N Pizmony	11	12	N/A	N/A
L Norquay <sup>(1)</sup>	10	11	1	2
S Heath	10	12	3	3
P Wiegard <sup>(2)</sup>	9	10	N/A	N/A
J Flintoft <sup>(3)</sup>	0	1	1	1

(1) Ms L Norquay – appointed to the Board on 2 September 2011

(2) Mr P Wiegard – appointed to the Board 24 October 2011

(3) Mr J Flintoft – resigned from the Board on 2 September 2011

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).

There is also a Nominations Committee and a Remuneration & Evaluation Committee but there were no meetings held during the year ended 31 July 2012 since the bonus arrangements were unchanged from the prior year; this committee has met since the year end. Board appointments made during the year were ratified by a meeting of the Nominations Committee in the prior year.

### 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.
S Tanner	400,000	-
S Downs	2,672,776	4,200,000
C Mathieson	111,382,852	-
N Pizmony	30,685,131	-
S Heath	666,667	-
L Norquay	-	-
P Wiegard	1,900,698	-

## Directors' Report

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

Year ended 31 July 2012	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>Executive Directors</b>						
Stewart Downs	4,200,000	-	-	-	4,200,000	-
<b>Executives</b>						
James Cody	1,000,000	-	-	-	1,000,000	-
Year 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>Executive Directors</b>						
Stewart Downs	4,200,000	-	-	-	4,200,000	-
<b>Executives</b>						
James Cody	1,000,000	-	-	-	1,000,000	-
Garry Mudford	1,000,000	-	-	(1,000,000)	-	-
Adam Kocks	750,000	-	-	(750,000)	-	-

### Performance Share Rights holdings

No Performance Share Rights were held during the financial year/period by each of the key management personnel of the Group, including their related entities.

The details for the financial year ended 31 July 2011 are set out below.

Year 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
<b>Executives</b>						
Adam Kocks <sup>(1)</sup>	20,000	-	-	(20,000)	-	-

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

## Directors' Report

---

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

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

### Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 30 of this annual report.

## Directors' Report

---

### Remuneration Report

#### Details of key management personnel

The following directors and key management personnel of the Group during or since the end of the financial year were:

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
Linda Norquay	Independent Non-executive Director – appointed 2 September 2011
Paul Wiegard	Executive Director – appointed 24 October 2011 and Joint Managing Director Madman Entertainment
James Flintoft	Independent Non-executive Director – resigned 2 September 2011
Tim Anderson	Joint Managing Director – Madman Entertainment
James Cody	Chief Financial Officer & Company Secretary

#### 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.

## Directors' Report

### Remuneration Report (continued)

#### 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 periodically 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 2012 were \$380,000 (2011: \$107,034). The long term financial incentive performance hurdle rates have not been achieved, either in financial year 2012 or in financial period 2011.

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:

	Year ended 31 July 2012	Year ended 31 July 2011	7 months ended 31 July 2010	Year ended 31 Dec 2009	Year ended 31 Dec 2008
<b>NPAT (\$'000)<sup>(i)</sup></b>	<b>10,436</b>	(38,205)	(3,579)	(41,664)	(41,544)
<b>EPS Basic (Cents)<sup>(ii)</sup></b>	<b>2.77</b>	(11.2)	(1.05)	(17.9)	(25.1)
<b>Diluted EPS (Cents)<sup>(ii)</sup></b>	<b>2.77</b>	(11.2)	(1.05)	(17.9)	(25.1)
<b>Total Dividends (\$'000)</b>	<b>Nil</b>	Nil	Nil	Nil	Nil
<b>Year End Share Price (\$)</b>	<b>0.16</b>	0.07	0.22	0.22	0.18
<b>Shares on Issue (No.)</b>	<b>537,799,605</b>	340,997,682	340,997,682	340,997,682	165,498,841
<b>Market Capitalisation (\$'000)</b>	<b>86,048</b>	23,870	75,019	75,019	29,790

(i) NPAT from continuing operations

(ii) Basic & Diluted EPS from continuing operations

#### 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.



## Directors' Report

---

### Remuneration Report (continued)

#### 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.

Performance measurements have been applied to each component of STI and accordingly entitlements were determined with regard to the executive's level and area of responsibility. Performance against the objectives was determined and incentives and entitlements assessed against the audited financial results.

The terms of Stewart Downs, Nir Pizmony and James Cody's STI bonuses are outlined below:

- In the event that the Group's earnings before interest, tax, depreciation and amortisation (EBITDA) for the 12 months from 1 August 2011 to 31 July 2012 exceeds \$20 million, each individual will be eligible for a bonus as follows.
  - Stewart Downs (\$85,000), Nir Pizmony (\$70,000) and James Cody (\$25,000).

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

- In the event that Madman Entertainment's earnings before interest, tax and amortisation expenses (EBITA) for the 12 months from 1 August 2011 to 31 July 2012 exceeds \$8m, each individual will be eligible for a bonus of \$100,000.
- 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

### Remuneration Report (continued)

#### Remuneration of Key management personnel compensation

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

Year ended 31 July 2012	Short-term employee benefits			Post-employment benefits	Other long-term employee benefits	Share-based payments		
	Salary and fees	Cash Bonus	Non-monetary benefits	Super-annuation		Options	Total	Consisting of options / PSRs
	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>								
Shane Tanner	120,000	-	-	-	-	-	120,000	-
Stewart Downs	490,422	85,000	-	23,617	11,701	95,935	706,675	13.58%
Craig Mathieson	57,163	-	-	5,145	-	-	62,308	-
Nir Pizmony	392,520	70,000	-	41,561	1,008	-	520,089	-
Stephen Heath	57,163	-	-	5,145	-	-	62,308	-
Linda Norquay <sup>(1)</sup>	55,000	-	-	-	-	-	55,000	-
Paul Wiegard <sup>(2)</sup>	337,351	100,000	-	26,111	11,898	-	475,360	-
James Flintoft <sup>(3)</sup>	6,987	-	-	629	-	-	7,616	-
	<b>1,516,606</b>	<b>255,000</b>	-	<b>102,208</b>	<b>24,607</b>	<b>95,935</b>	<b>1,994,356</b>	
<b>Executives</b>								
James Cody	339,597	25,000	-	16,791	832	45,702	427,922	10.68%
Tim Anderson	332,555	100,000	-	26,042	11,898	-	470,495	-
	<b>672,152</b>	<b>125,000</b>	-	<b>42,833</b>	<b>12,730</b>	<b>45,702</b>	<b>898,417</b>	
	<b>2,188,758</b>	<b>380,000</b>	-	<b>145,041</b>	<b>37,337</b>	<b>141,637</b>	<b>2,892,773</b>	

KMP: are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Based on the above definition the above are the only persons considered KMP for the year ended 31 July 2012.

- (1) Mrs L Norquay– appointed to the Board effective 2 September 2011;  
(2) Mr P Wiegard – appointed to the Board effective 24 October 2011; and  
(3) Mr J Flintoft – resigned from the Board on 2 September 2011

For information on share options and performance share rights granted to key management personnel refer to pages 25 to 29.

## Directors' Report

### Remuneration Report (continued)

#### Key management personnel compensation (continued)

Year ended 31 July 2011	Short-term employee benefits				Post-employment benefits		Termination benefits	Share-based payments		
	Salary and fees	Cash Bonus	Non-monetary benefits	Other	Super-annuation	Other long-term employee benefits		Options / PSRs	Total	Consisting of options / PSRs
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>										
Shane Tanner	120,000	-	-	-	-	-	-	-	120,000	-
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	-
Stephen Heath <sup>(1)</sup>	44,037	-	-	-	3,963	-	-	-	48,000	-
James Flintoft	55,046	-	-	-	4,954	-	-	-	60,000	-
	<b>1,094,997</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>87,749</b>	<b>(490)</b>	<b>-</b>	<b>103,759</b>	<b>1,286,015</b>	
<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>(2)</sup>	40,649	-	-	-	11,090	-	126,159	(22,542)	155,356	(14.5%)
Adam Kocks <sup>(3)</sup>	165,191	-	-	198,319	18,244	-	207,836	(16,573)	573,017	(2.89%)
	<b>1,151,641</b>	<b>107,034</b>	<b>-</b>	<b>198,319</b>	<b>124,088</b>	<b>10,037</b>	<b>333,995</b>	<b>6,462</b>	<b>1,931,576</b>	
	<b>2,246,638</b>	<b>107,034</b>	<b>-</b>	<b>198,319</b>	<b>211,837</b>	<b>9,547</b>	<b>333,995</b>	<b>110,221</b>	<b>3,217,591</b>	

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

(2) Mr G Mudford – redundant effective 2 September 2010; and

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

## Directors' Report

### 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.

#### Share Options/Performance Share 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	37	01/04/2010	01/04/2015	\$0.119	09/11/2011 & 09/11/2012	4

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

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

#### 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:

- 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;
- for the remaining 50% to vest the average annual diluted EPS growth rate over a three year period, is required to be 15%pa;
- 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
- 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:

- 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);
- 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;
- 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
- the employee being in continuous employment with the Company until 31 August in the year following the three years.

## Directors' Report

---

### Remuneration Report (continued)

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(m).

#### 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.

#### 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.

## Directors' Report

---

### 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 ESOP's were exercised during the current financial year or preceding financial year.

#### 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.

#### Paul Wiegard – Executive Director - (appointed 24 October 2011)

- Term of the agreement - full-time permanent fixed term from 1 January 2010 until 1 January 2013.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months' base salary.
- Current contract to be replaced from 1 January 2013 by full-time permanent with no specific term.
- Notice period currently 12 months, changing to 6 months when contract replaced as above

#### Stephen Heath – 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.

#### 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.

## Directors' Report

---

### Remuneration Report (continued)

#### 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.

#### Tim Anderson – Joint Managing Director - Madman Entertainment

- Term of the agreement – full-time permanent fixed term from 1 January 2010 until 1 January 2013.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months base salary.
- Current contract to be replaced from 1 January 2013 by full-time permanent with no specific term.
- Notice period currently 12 months, changing to 6 months when contract replaced as above

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  
27 September 2012

27 September 2012

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

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 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 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 statement of financial position as at 31 July 2012, 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 33 to 101.

#### *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 gives a true and fair view and 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 judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company'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 company'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 2012 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.

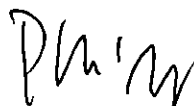
## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 21 to 29 of the directors' report for the year ended 31 July 2012. 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 year ended 31 July 2012, complies with section 300A of the *Corporations Act 2001*.

  
DELOITTE TOUCHE TOHMATSU

  
Patrick McLay  
Partner  
Chartered Accountants  
Melbourne, 27 September 2012

## Director's Declaration

---

The directors declare that:

- a) in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- b) in the director's opinion 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 34 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  
27 September 2012

## Consolidated Statement of Comprehensive Income for the year ended 31 July 2012

	Note	Year ended 31 July 2012 \$'000	Year ended 31 July 2011 \$'000
<b>Continuing operations</b>			
Revenue	5	170,693	182,917
Cost of goods sold		(99,090)	(131,902)
Gross profit		71,603	51,015
Investment income	7	281	135
Warehouse and distribution expenses		(13,362)	(15,722)
Marketing and selling expenses		(25,288)	(30,753)
Administration expenses		(13,036)	(17,562)
Impairment and restructuring costs	6	-	(16,171)
Earnings before interest, taxation, amortisation and depreciation expenses (EBITDA)		20,198	(29,058)
Finance costs	9	(7,410)	(7,397)
Depreciation and amortisation expenses	7	(2,958)	(1,841)
<b>Profit/(Loss) before income tax</b>	7	<b>9,830</b>	<b>(38,296)</b>
Income tax benefit	8	606	91
<b>Profit/(Loss) for the year from continuing operations</b>		<b>10,436</b>	<b>(38,205)</b>
<b>Other comprehensive income</b>			
Exchange differences arising on translation of foreign operations		(220)	82
Profit/(Loss) on cash flow hedges taken to equity		853	(2,039)
Other comprehensive income for the year (net of tax)		633	(1,957)
<b>Total comprehensive income attributable to members of Funtastic</b>		<b>11,069</b>	<b>(40,162)</b>
<b>Earnings per share</b>			
From continuing operations:		Cents	Cents
Basic (cents per share)	30	2.77	(11.2)
Diluted (cents per share)	30	2.77	(11.2)

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

## Consolidated statement of Financial Position as at 31 July 2012

	Note	31 July 2012 \$'000	31 July 2011 \$'000
<b>Current Assets</b>			
Cash	36	2,257	1,948
Trade and other receivables	10	37,717	27,254
Inventories	11	16,085	22,162
Other	12	20,622	18,539
<b>Total Current Assets</b>		<b>76,681</b>	<b>69,903</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	15	2,442	2,629
Goodwill	16	78,845	68,054
Other intangibles	17	10,123	3,335
Deferred tax assets	8	13,388	12,520
Other financial assets	18	200	-
<b>Total Non-Current Assets</b>		<b>104,998</b>	<b>86,538</b>
<b>Total Assets</b>		<b>181,679</b>	<b>156,441</b>
<b>Current Liabilities</b>			
Trade payables	20	17,259	14,202
Borrowings <sup>(1)</sup>	21	46,020	80,859
Provisions	22	3,746	6,734
Deferred purchase consideration	23	3,502	1,320
Other	24	7,695	9,524
Current tax liabilities	13	640	172
Other financial liabilities	25	2,378	3,597
<b>Total Current Liabilities</b>		<b>81,240</b>	<b>116,408</b>
<b>Non-Current Liabilities</b>			
Borrowings	21	14,750	-
Provisions	22	1,401	1,440
Deferred tax liabilities	8	5,599	4,410
Deferred purchase consideration	23	6,015	-
Other	24	917	985
<b>Total Non-Current Liabilities</b>		<b>28,682</b>	<b>6,835</b>
<b>Total Liabilities</b>		<b>109,922</b>	<b>123,243</b>
<b>Net Assets</b>		<b>71,757</b>	<b>33,198</b>
<b>Equity</b>			
Issued capital	27	186,725	159,377
Accumulated losses	28	(113,733)	(124,169)
Reserves	29	(1,235)	(2,010)
<b>Total Equity</b>		<b>71,757</b>	<b>33,198</b>

(1) Includes trade debtor and trade finance facilities that will be available to the Group until at least 31 October 2013 (Note 21).

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

## Consolidated Statement of Changes in Equity for the year ended 31 July 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
Loss for the year	-	(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
<b>Balance at 31 July 2011</b>	<b>159,377</b>	<b>(124,169)</b>	<b>(966)</b>	<b>1,474</b>	<b>(2,518)</b>	<b>33,198</b>
Profit for the year	-	10,436	-	-	-	10,436
Other comprehensive (loss)/gain	-	-	(220)	-	853	633
Total comprehensive income	-	10,436	(220)	-	853	11,069
Recognition of share-based payments	-	-	-	142	-	142
Issue of ordinary shares under rights issue	17,785	-	-	-	-	17,785
Issue of ordinary shares under share placement	6,842	-	-	-	-	6,842
Issue of ordinary shares for purchase acquisition	3,796	-	-	-	-	3,796
Share issue costs	(1,536)	-	-	-	-	(1,536)
Tax effect of costs	461	-	-	-	-	461
<b>Balance at 31 July 2012</b>	<b>186,725</b>	<b>(113,733)</b>	<b>(1,186)</b>	<b>1,616</b>	<b>(1,665)</b>	<b>71,757</b>

The 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 2012

	Note	31 July 2012 \$'000	31 July 2011 \$'000
<b>Cash Flows from Operating Activities</b>			
Receipts from customers		177,580	212,667
Payments to suppliers and employees		(166,419)	(205,491)
Cash generated from operations		11,161	7,176
Income taxes (paid)/received		(193)	162
Interest and other costs of finance paid		(7,185)	(7,357)
<b>Net Cash Inflow/(Outflow) from Operating Activities</b>	36	<b>3,783</b>	<b>(19)</b>
<b>Cash Flows from Investing Activities</b>			
Interest and other investment income received		281	134
Payments for acquisition of businesses	35(a)	(3,061)	-
Payments for property, plant and equipment		(1,192)	(859)
Payments for other intangible assets		(2,480)	(1,537)
Proceeds from sale of property, plant and equipment		39	10
Proceeds from sale of business		-	1,521
<b>Net Cash Outflow from Investing Activities</b>		<b>(6,413)</b>	<b>(731)</b>
<b>Cash Flows from Financing Activities</b>			
Proceeds from issue of shares		24,603	-
Proceeds from borrowings		244	1,662
Repayment of borrowings		(20,068)	-
Borrowings transaction costs		(266)	-
Share issue transaction costs		(1,536)	-
<b>Net Cash Inflow from Financing Activities</b>		<b>2,977</b>	<b>1,662</b>
<b>Net increase in Cash Held</b>		<b>347</b>	<b>912</b>
Cash and cash equivalents at the beginning of the year		1,948	972
Effects of exchange rate changes on the balance of cash held in foreign currencies		(38)	64
<b>Cash and cash equivalents at the end of the year</b>	36	<b>2,257</b>	<b>1,948</b>

The above statement of cash flows should be read in conjunction with the accompanying Notes.

## Notes to the Financial Statements 31 July 2012

### NOTE 1: Application of new and revised Accounting Standards

#### 1.1 Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section 1.2.

Amendments to AASB 101  
'Presentation of Financial  
Statements'

The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

AASB 1054 'Australian Additional  
Disclosures' and AASB 2011-1  
'Amendments to Australian  
Accounting Standards arising from  
Trans-Tasman Convergence  
Project'

AASB 1054 sets out the Australian-specific disclosures for entities that have adopted Australian Accounting Standards. This Standard contains disclosure requirements that are in addition to IFRSs in areas such as compliance with Australian Accounting Standards, the nature of financial statements (general purpose or special purpose), audit fees, imputation (franking) credits and the reconciliation of net operating cash flow to profit (loss).

AASB 2011-1 makes amendments to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards. The Standard deletes various Australian-specific guidance and disclosures from other Standards (Australian-specific disclosures retained are now contained in AASB 1054), and aligns the wording used to that adopted in IFRSs.

The application of AASB 1054 and AASB 2011-1 in the current year has resulted in the simplification of disclosures in regards to audit fees, franking credits and capital and other expenditure commitments as well as an additional disclosure on whether the Group is a for-profit or not-for-profit entity.

AASB 124 'Related Party  
Disclosures' (revised December  
2009)

AASB 124 (revised December 2009) has been revised on the following two aspects: (a) AASB 124 (revised December 2009) has changed the definition of a related party and (b) AASB 124 (revised December 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Company and its subsidiaries are not government-related entities. The application of the revised definition of related party set out in AASB 124 (revised December 2009) in the current year has resulted in the identification of related parties that were not identified as related parties under the previous Standard.



## Notes to the Financial Statements 31 July 2012

### Standards and Interpretation affecting the reported results or financial position

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reported results or financial position.

#### 1.2 Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement

Interpretation 114 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of AASB 119; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments to Interpretation 114 has not had material effect on the Group's consolidated financial statements.

AASB 2009-12 'Amendments to Australian Accounting Standards

The application of AASB 2009-12 makes amendments to AASB 8 'Operating Segments' as a result of the issuance of AASB 124 'Related Party Disclosures' (2009). The amendment to AASB 8 requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The Standard also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. The application of AASB 2009-12 has not had any material effect on amounts reported in the Group's consolidated financial statements.

AASB 2010-5 'Amendments to Australian Accounting Standards'

The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. The application of AASB 2010-5 has not had any material effect on amounts reported in the Group's consolidated financial statements.

AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'

The Application of AASB 2010-6 makes amendments to AASB 7 'Financial Instruments – Disclosures' to introduce additional disclosure requirements for transactions involving transfer of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred and derecognised but the transferor retains some level of continuing exposure in the asset.

To date, the Group has not entered into any transfer arrangements of financial assets that are derecognised but with some level of continuing exposure in the asset. Therefore, the application of the amendments has not had any material effect on the disclosures made in the consolidated financial statements.

## Notes to the Financial Statements 31 July 2012

### 1.3 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and interpretations listed below were in issue but not yet effective.

Standard /Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
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 2015	31 July 2016
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 13 'Fair Value Measurement and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	31 July 2014
AASB 119 'Employees Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	31 July 2014
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	31 July 2013
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	31 July 2014
AASB 2011-7 'Amendments to Australian Accounting Standards arising from Consolidation and Joint Arrangements standards'	1 January 2013	31 July 2014
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 July 2012	31 July 2013

At the date of authorisation of the financial statements, the following IASB Standards and IFRIC Interpretations were also in issue but not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

Standard /Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	1 January 2014	31 July 2015
Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	1 January 2013	31 July 2014
Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)	1 January 2015	31 July 2016

### 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, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group.

For the purpose of preparing the consolidated financial statements the company is a for profit entity.

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

The financial statements were authorised for issue by the directors on 28 September 2012.

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.

#### Going Concern Basis

Despite a net current asset deficiency of \$4,559,000, the financial statements have been prepared on a going concern basis due to the fact that of the current borrowings of \$46,020,000, \$36,280,000 relates to trade debtor and trade finance facilities that will be available to the Group until at least 31 October 2013 (Note 21).

Exclusion of these borrowings from current liabilities would result in a positive net current asset position of \$31,721,000.

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.

Income and expense 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 year is the tax payable on the current year'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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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.

## **NOTE 2: Significant accounting policies (continued)**

### *(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. 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 and 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.

## **NOTE 2: Significant accounting policies (continued)**

### **(f) Rental Income**

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

### **(g) 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

### **(h) 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.

### **(i) 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.

### **(j) 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.

### **(k) 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 tax authority 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 tax authority are classified as operating cash flows.

### **(l) 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 (Note 26). 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.

## **NOTE 2: Significant accounting policies (continued)**

### **(m) 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 2003 and that vested after 1 January 2006. No amount has been recognised in the financial statements in respect of the other equity-settled share-based payments.

### **(n) 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.

### **(o) 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.

### **(p) 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.

### **(q) 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.

## NOTE 2: Significant accounting policies (continued)

### (q) Business combinations (continued)

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.

### (r) 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.

### (s) 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 or 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.

## **NOTE 2: Significant accounting policies (continued)**

### **(t) 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 37 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 37 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.

### **(u) 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 37.

#### *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.



## **NOTE 2: Significant accounting policies (continued)**

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

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.

### **(v) 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 37.

#### *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.

### **(w) 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.

### **(x) 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.

### **(y) 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.

**NOTE 2: Significant accounting policies  
(continued)**

**(y) Impairment of tangible and intangible assets  
(other than goodwill) (continued)**

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.

## Notes to the Financial Statements 31 July 2012

### 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 (s). 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.

- *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(i) 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.

- *Taxation losses recognised as asset*

The Group has recognised deferred tax in respect to revenue tax losses of approximately 2 years future profits based on the expected future taxable income. The final amount recoverable will depend on the losses being available under the 'continuity of ownership' test and the Group achieving this future taxable income. Refer to Note 8 for details of tax losses taken up as at 31 July 2012.

- *Deferred purchase consideration*

The Group has taken up deferred purchase consideration in respect to the potential earn out payments required to satisfy the Kidz@Play acquisition (Note 35). These are based on projected earnings during the earn out period calculated in accordance with the business sale agreement. The final amounts payable will be subject to negotiation with the vendor and may differ to 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:

- Funtastic Australia (previously Toys and Lifestyle Merchandise)
- Funtastic Brands (previously International)
- Madman Entertainment (previously Entertainment)
- Other

## Notes to the Financial Statements 31 July 2012

### NOTE 4: Segment information (continued)

The Funtastic Australia reportable segment distributes licensed toys, sporting equipment, nursery equipment and confectionary. The Funtastic Brands reportable segment designs and sources unique product offerings for worldwide distribution. The Madman 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:

		Revenue		Segment profit/(loss)	
	Note	Year ended 30 July 2012 \$'000	Year ended 31 July 2011 \$'000	Year ended 30 July 2012 \$'000	Year ended 31 July 2011 \$'000
<b>Continuing operations</b>					
Funtastic Australia		101,279	108,822	13,618	(2,254)
Funtastic Brands		14,721	16,350	1,889	(721)
Madman Entertainment		51,039	52,512	9,866	223
Other		-	3,655	-	(9)
		<b>167,039</b>	<b>181,340</b>	<b>25,373</b>	<b>(2,761)</b>
Central administration		-	-	(5,175)	(12,054)
Finance costs		-	-	(7,410)	(7,397)
Depreciation and amortisation expenses		-	-	(2,958)	(1,841)
Other revenue		3,654	1,577	-	-
Impairment & restructuring	6	-	-	-	(14,242)
Continuing segment revenue and profit/(loss) before income tax		<b>170,693</b>	<b>182,917</b>	<b>9,830</b>	<b>(38,296)</b>
Income tax benefit		-	-	606	91
Consolidated segment revenue and profit/(loss) after tax for the year		<b>170,693</b>	<b>182,917</b>	<b>10,436</b>	<b>(38,205)</b>

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.

## Notes to the Financial Statements 31 July 2012

### NOTE 4: Segment information (continued)

#### 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	
	Year ended 31 July 2012 \$'000	Year ended 31 July 2011 \$'000
Australia	152,379	163,076
New Zealand	3,593	3,491
Hong Kong	14,721	16,350
	<b>170,693</b>	<b>182,917</b>

#### Information about major customers

Included in revenues of Funtastic Australia of \$101,279,000 (2011: \$108,822,000), are revenues of approximately \$84,512,000 (2011: \$87,245,000), which arose from sales to the segment's four largest customers.

Included in revenues of Funtastic Brands of \$14,721,000 (2011: \$16,350,000) are revenues of approximately \$11,563,000 (2011: \$7,914,000) which arose from sale to the segments four largest customers.

Included in revenues of Madman Entertainment of \$51,039,000 (2011: \$52,512,000) are revenues of approximately \$35,136,000 (2011: \$27,431,000) which arose from sales to the segment's four largest customers.

### NOTE 5: Revenue

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

	31 July 2012 \$'000	31 July 2011 \$'000
<i>Revenue from the sale of goods</i>		
Gross revenue	190,061	203,470
Less settlement discounts and rebates	(23,022)	(22,130)
	<b>167,039</b>	<b>181,340</b>
Commissions received	3,175	736
Other	479	841
	<b>3,654</b>	<b>1,577</b>
	<b>170,693</b>	<b>182,917</b>

## Notes to the Financial Statements 31 July 2012

### 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 financial year.

	Year ended 30-Jul 2012 \$'000	Year ended 31-Jul 2011 \$'000
<i>Impairment</i>		
Goodwill impairment:		
Madman Entertainment	-	1,501
Funtastic Brands	-	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	-	1,384
Other Corporate restructuring costs	-	3,276
Total Restructuring Costs	-	4,660
<b>Total impairment and restructuring costs</b>	<b>-</b>	<b>16,171</b>

#### Goodwill Impairment – Madman Entertainment

During the financial year ended 31 July 2011 (no impairment assessed for the financial year ended 31 July 2012) 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 represented 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 Madman Entertainment business of \$1,501,000.

#### Goodwill Impairment – Funtastic Brands

During the financial year ended 31 July 2011 (no impairment assessed for the financial year ended 31 July 2012) 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 represented 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 Funtastic Brands business of \$3,006,000.

## Notes to the Financial Statements 31 July 2012

---

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

#### **Impairment – Other current financial assets**

During the financial year ended 31 July 2011 (no impairment assessed for the financial year ended 31 July 2012) in accordance with Group accounting policy, management sought to ensure that the Group's financial assets were stated at fair value.

During the period ended 31 July 2011, the Group had 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. The Group had 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 amounted to \$6,147,000 as at 31 July 2011.

A final settlement of \$500,000 was reached in February 2012 of which \$200,000 was received in the year ended 31 July 2012 and \$300,000 is recorded as an asset (Note 14 and Note 18).

#### **Impairment – Distribution agreements**

During the financial year ended 31 July 2011 (no impairment assessed for the financial year ended 31 July 2012) a distribution agreement was assessed for recoverability 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**

During the financial year ended 31 July 2011 the Group incurred costs of \$4,660,000 in relation to redundancies and other termination benefits.

## Notes to the Financial Statements 31 July 2012

### NOTE 7: Profit / (Loss) for the year

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

#### Continuing Operations

	Note	Year ended 31 July 2012 \$'000	Year ended 31 July 2011 \$'000
<b>Investment Income</b>			
Interest from bank deposits		62	39
Interest from convertible notes		-	96
Rental income		219	-
		<b>281</b>	<b>135</b>
<b>Impairment losses on financial assets</b>			
Impairment loss recognised on trade receivables	10	462	972
<b>Depreciation and amortisation expense</b>			
Depreciation of plant & equipment	15	851	702
Amortisation of leasehold improvements	15	323	285
Amortisation of other intangible assets	17	1,530	761
Amortisation of product development costs		254	93
Total depreciation and amortisation expense		<b>2,958</b>	<b>1,841</b>
Research and development costs expensed as incurred		<b>485</b>	<b>509</b>
<b>Employee benefits expense</b>			
Post-employment benefits:			
Defined contribution plans		1,242	1,454
Share-based payments:			
Equity-settled share-based payments		142	100
Termination benefits		576	947
Other employee benefits		17,804	20,644
Total employee benefits expense		<b>19,764</b>	<b>23,145</b>



## Notes to the Financial Statements 31 July 2012

### NOTE 8: Income tax

	Year ended 31 July 2012 \$'000	Year ended 31 July 2011 \$'000
<b>(a) Income tax expense</b>		
Tax expense comprises:		
Current tax expense in respect of the current year	2,105	210
Adjustments recognised in the current year in relation to the current tax expense of prior years	267	-
	<b>2,372</b>	210
Deferred tax expense comprises:		
Deferred tax benefit recognised on previously unrecognised and unused tax losses	(5,867)	-
Deferred tax expense relating to the origination and reversal of temporary differences	1,019	765
Adjustments recognised in the current year in relation to the deferred tax of prior years	1,504	-
Deferred tax reclassified from equity to profit or loss	366	(1,066)
	<b>(606)</b>	(91)
Total tax benefit relating to continuing operations	<b>(606)</b>	(91)
<b>(b) Income Tax recognised in profit or loss</b>		
The expense/(benefit) for the year can be reconciled to the accounting profit/(loss) as follows:		
Profit/(Loss) from continuing operations	9,830	(38,296)
Tax expense/(credit) at the Australian tax rate of 30%	2,949	(11,489)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Expenses that are not deductible in determining taxable loss	64	73
Effect of previously unrecognised and unused tax losses	(4,320)	10,434
Goodwill impairment	-	1,352
Effect of different tax rates of subsidiaries operating in other jurisdictions	(225)	-
Other	(578)	(461)
	<b>(2,110)</b>	(91)
Adjustments recognised in the current year in relation to the deferred tax of prior years	1,504	-
Income tax benefit recognised in profit or loss	<b>(606)</b>	(91)

## Notes to the Financial Statements 31 July 2012

### NOTE 8: Income tax (continued)

	Year ended 31 July 2012 \$'000	Year ended 31 July 2011 \$'000
<b>(c) Amounts recognised directly in equity</b>		
Deferred Tax Asset/(Liability):		
Financial instruments treated as cash flow hedges	713	1,079
<b>(d) Current tax balances</b>		
Current tax assets and liabilities		
Income tax payable to tax office		
Other – overseas subsidiaries	640	172
<b>(e) Deferred tax balances</b>		
Deferred tax assets comprises:		
Revenue tax losses	8,636	4,641
Temporary differences	4,752	7,879
	13,388	12,520
Deferred tax liability comprises:		
Temporary differences	5,599	4,410
Net deferred tax asset	7,789	8,110
Deferred tax assets/(liabilities) arise from the following:		
Provisions – receivables	410	1,090
Provisions – employee benefits	450	469
Provisions – restructuring	390	951
Accruals	237	9
Prepaid license agreements	233	-
Prepaid royalties	(4,008)	(4,387)
Inventory	1,378	2,194
Revenue tax losses	8,636	4,641
Other financial assets	-	1,504
Other provisions	278	351
Licenses	(1,587)	-
Foreign exchange	311	(24)
Cash flow hedges	713	1,079
Section 40 -880 deductions (Capital raising)	352	204
Other	(4)	29
	7,789	8,110

# Notes to the Financial Statements 31 July 2012

## NOTE 8: Income tax (continued)

### 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 34.

#### 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.

### Tax Losses

As at 31 July 2012 the Australian Group has carried forward revenue tax losses of approximately \$54,697,000 (2011: \$60,248,000). As at 31 July 2012 a deferred tax asset of \$8,636,000 (31 July 2011: \$4,641,000) has been booked relating to revenue tax losses of \$28,787,000 (31 July 2011: \$15,470,000). Following the assessment of the probability of recovery, having considered future taxable income and current tax legislation in respect to carrying forward revenue tax losses, the balance of tax losses available at 31 July 2012 of \$25,910,000 has not been booked as a deferred tax asset in these financial statements.

## NOTE 9: Finance Costs

	Year ended 31 July 2012 \$'000	Year ended 31 July 2011 \$'000
<b>Continuing operations</b>		
Interest on bank overdrafts and loans	6,702	7,125
Fair value losses on interest rate swaps designated as cash flow hedges transferred from equity	708	272
	<b>7,410</b>	<b>7,397</b>

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

	31 July 2012 \$'000	31 July 2011 \$'000
Trade receivables <sup>(1)</sup>	44,841	34,560
Allowance for doubtful debts	(595)	(1,356)
Allowance for credit notes, rebates and settlement discounts	(7,126)	(6,676)
	<b>37,120</b>	<b>26,528</b>
Other receivables	597	726
	<b>37,717</b>	<b>27,254</b>

(1) The average credit period on sales of goods is 77 days (2011: 62 days). No interest is charged on the trade receivables.

## Notes to the Financial Statements 31 July 2012

### 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 \$13,850,210 (2011: \$8,960,027) 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 (2011: 11 days).

The Group reviews trade debtors on an ongoing basis and makes 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 makes allowances 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 \$43,338 (2011: \$180,971) 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
<b>31 July 2012</b>			
Balance at beginning of year	(1,356)	(6,676)	(8,032)
Utilised	987	5,617	6,604
Reversed	236	215	451
Provisions raised	(462)	(6,282)	(6,744)
<b>Balance at end of the year</b>	<b>(595)</b>	<b>(7,126)</b>	<b>(7,721)</b>
<b>31 July 2011</b>			
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)
<b>Balance at end of the year</b>	<b>(1,356)</b>	<b>(6,676)</b>	<b>(8,032)</b>

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.

### NOTE 11: Current assets – Inventories

	31 July 2012 \$'000	31 July 2011 \$'000
Finished goods	16,085	22,162

The cost of inventories recognised as an expense during the year in respect of continuing operations was \$86,090,436 (2011: \$102,312,000).

## Notes to the Financial Statements 31 July 2012

### NOTE 12: Current assets – Other

	Note	31 July 2012 \$'000	31 July 2011 \$'000
Prepaid royalties		18,571	16,375
Prepayments		849	1,293
Product development costs		649	639
Trademarks		211	156
Other financial assets	14	100	-
Other		242	76
		<b>20,622</b>	<b>18,539</b>

### NOTE 13: Current tax liabilities

		31 July 2012 \$'000	31 July 2011 \$'000
Tax payable – overseas subsidiaries		640	172

### NOTE 14: Other financial assets

	Note	31 July 2012 \$'000	31 July 2011 \$'000
<i>Current</i>			
Consideration receivable on sale of business <sup>(1)</sup>	12	100	6,147
Allowance for impairment loss <sup>(1)</sup>		-	(6,147)
		<b>100</b>	<b>-</b>

- (1) 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). 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 amounted to \$6,147,000 as at 31 July 2011 and included a reclassification of \$1,322,000 from trade and other receivables with respect to prior periods.

Whilst the Group intended to continue to pursue full settlement, with the passage of time the Directors considered it prudent to record a full impairment loss on the outstanding receivable and accordingly a \$6,147,000 impairment loss was charged to profit and loss during the year ended 31 July 2011.

Subsequently a settlement was reached for \$500,000. As at 31 July 2012 an amount of \$300,000 remains receivable based on the terms of the settlement, of which \$200,000 of this amount will not be recovered until 2014.

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

		31 July 2012 \$'000	31 July 2011 \$'000
Plant and equipment – at cost		3,316	7,312
Less: accumulated depreciation		(2,580)	(6,167)
		<b>736</b>	<b>1,145</b>
Leasehold improvements – at cost		2,500	2,482
Less: accumulated amortisation		(794)	(998)
		<b>1,706</b>	<b>1,484</b>
		<b>2,442</b>	<b>2,629</b>

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

## Notes to the Financial Statements 31 July 2012

### 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:

31 July 2012	Plant & Equipment \$'000	Leasehold Improvements \$'000	Total \$'000
<b>Cost</b>			
Opening Balance	7,312	2,482	9,794
Additions	628	796	1,424
Disposals	(4,639)	(778)	(5,417)
Net foreign exchange difference	15	-	15
<b>Closing Balance</b>	<b>3,316</b>	<b>2,500</b>	<b>5,816</b>
<b>Accumulated Deprecation</b>			
Opening Balance	(6,167)	(998)	(7,165)
Disposals	4,462	527	4,988
Depreciation/amortisation	(851)	(323)	(1,173)
Net foreign exchange difference	(24)	-	(24)
<b>Closing Balance</b>	<b>(2,580)</b>	<b>(794)</b>	<b>(3,374)</b>
<b>Written Down Value</b>			
Opening Balance	1,145	1,484	2,629
<b>Closing Balance</b>	<b>736</b>	<b>1,706</b>	<b>2,442</b>
<b>Year ended 31 July 2011</b>			
<b>Cost</b>			
Opening Balance	6,955	2,425	9,380
Additions	796	63	859
Disposals	(384)	(5)	(389)
Net foreign exchange difference	(55)	(1)	(56)
<b>Closing Balance</b>	<b>7,312</b>	<b>2,482</b>	<b>9,794</b>
<b>Accumulated Deprecation</b>			
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
<b>Closing Balance</b>	<b>(6,167)</b>	<b>(998)</b>	<b>(7,165)</b>
<b>Written Down Value</b>			
Opening Balance	1,142	1,806	2,948
<b>Closing Balance</b>	<b>1,145</b>	<b>1,484</b>	<b>2,629</b>

## Notes to the Financial Statements 31 July 2012

### NOTE 16: Non-current assets – Goodwill

	Note	31 July 2012 \$'000	31 July 2011 \$'000
Gross carrying amount			
Balance at the beginning of financial year		68,054	73,608
Additional goodwill recognised from business combinations occurring during the year	35	9,011	-
Additional amounts recognised from past business combinations – earnout obligations <sup>(1)</sup>		1,780	1,633
Fair value adjustments in respect of past business combinations – earnout obligations		-	(2,680)
Impairment losses for the year		-	(4,507)
<b>Balance at the end of financial year</b>		<b>78,845</b>	<b>68,054</b>

#### Net book value

Balance at the beginning of financial year	68,054	73,608
Balance at the end of financial year	78,845	68,054

(1) This 2009 acquisition is treated under the transitional provisions of AASB 3 (2009)

#### 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:

Cash generating unit <sup>(1)</sup>	31 July 2012 \$'000	31 July 2011 \$'000
Funtastic Australia	44,769	39,204
Funtastic Brands	5,226	-
Madman Entertainment	28,850	28,850
Total	78,845	68,054

<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.

#### I. Funtastic Australia (previously Toys & Sporting)

The recoverable amount of the Funtastic Australia 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 15.3% (2011: 19.6%) 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 Funtastic Australia 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 2.5% (2011: 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 Funtastic Australia CGU includes other intangibles of \$7,736,000 (2011: \$2,320,000). 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 amount is based would not cause the CGU's carrying amount to materially exceed its recoverable amount.

## Notes to the Financial Statements 31 July 2012

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

#### 2. Funtastic Brands (previously International)

The recoverable amount of the Funtastic Brands 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 14.3% (2011: 19.6%) which represents the WACC for the CGU. The discount rate is pre-tax and represents the Group's WACC.

Cash flow projections during the budget period are based on normalised gross margins by the CGU and an average growth rate in sales of 7.5% (2011: 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. During the financial year ended 31 July 2011 the recoverable amount assessment resulted in the recognition of goodwill impairment loss for the Funtastic Brands business of \$3,006,000. The Funtastic Brands CGU includes other intangibles of \$3,270,000 (2011: \$nil). 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 amount is based would not cause the CGU's carrying amount to materially exceed its revised recoverable amount.

#### 3. Madman Entertainment (previously Entertainment)

The recoverable amount of the Madman 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 13.3% (2010: 18.6%) 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 Madman Entertainment CGU.

Cash flow projections during the budget period are based on normalised gross margins by the CGU and an average decline in growth rate in sales of (2.5%) (2011: 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. During the financial year ended 31 July 2011 the recoverable amount assessment resulted in the recognition of goodwill impairment loss for the Madman 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 externally observable data on comparable companies adjusted for the Group's risk profile and share price volatility and based on the cash flows of the relevant CGU's.
Budgeted Gross Margin	Based on past history and management experience.
Sales Growth	Based on management future expectation taking into account current economic conditions.

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

	31 Jul 2012 \$'000	31 July 2011 \$'000
Brand names (i)	1,015	1,015
Software costs	4,941	4,902
Less: Accumulated amortisation and impairment (ii)	(3,594)	(3,244)
	1,347	1,658
Licenses, distribution agreements & supplier relationships (iii)	8,814	1,895
Less: Accumulated amortisation and impairment (ii)	(1,053)	(1,233)
	7,761	662
	10,123	3,335



## Notes to the Financial Statements 31 July 2012

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

	Computer Software \$'000	Brand Names \$'000	Licenses, distribution agreements and supplier relationships \$'000	Total \$'000
<b>Cost</b>				
<b>Balance at 1 August 2010</b>	4,666	1,015	48,500	54,181
Additions	236	-	1,301	1,537
Reclassifications	-	-	594	594
Disposals	-	-	(48,500)	48,500
<b>Balance at 31 July 2011</b>	<b>4,902</b>	<b>1,015</b>	<b>1,895</b>	<b>7,812</b>
Additions	85	-	8,277	8,362
Disposals	(46)	-	(1,358)	(1,404)
<b>Balance at 31 July 2012</b>	<b>4,941</b>	<b>1,015</b>	<b>8,814</b>	<b>14,770</b>
<b>Accumulated amortisation and impairment</b>				
<b>Balance at 1 August 2010</b>	(2,859)	-	(48,500)	(51,359)
Amortisation expense	(385)	-	(376)	(761)
Impairment	-	-	(857)	(857)
Disposals	-	-	48,500	48,500
<b>Balance at 31 July 2011</b>	<b>(3,244)</b>	<b>-</b>	<b>(1,233)</b>	<b>(4,477)</b>
Amortisation expense	(386)	-	(1,144)	(1,530)
Disposals	36	-	1,324	1,360
<b>Balance at 31 July 2012</b>	<b>(3,594)</b>	<b>-</b>	<b>(1,053)</b>	<b>(4,647)</b>
<b>Net book value</b>				
As at 31 July 2011	1,658	1,015	662	3,335
<b>As at 31 July 2012</b>	<b>1,348</b>	<b>1,015</b>	<b>7,762</b>	<b>10,123</b>

- (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 2.5% (2011: 0.0%) and the Discount Rate 15.3% (2010: 18.6%).
- (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) In the financial year ended 31 July 2011 a distribution agreement, the cost of which was previously classified in prepaid royalties, was assessed for recoverability during the year ended 31 July 2011 and management identified that, in light of weak sales and resulting future economic benefits, the agreement's recoverable amount was nil.

## Notes to the Financial Statements 31 July 2012

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

	Note	31 July 2012 \$'000	31 July 2011 \$'000
AHT receivable <sup>(1)</sup>		200	-

- (1) 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. 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 amounted to \$6,147,000 as at 31 July 2011 and included a reclassification of \$1,322,000 from trade and other receivables with respect to prior periods.

Whilst the Group intended to continue to pursue full settlement, with the passage of time the Directors considered it prudent to record a full impairment loss on the outstanding receivable and accordingly a \$6,147,000 impairment loss was charged to profit and loss during the year ended 31 July 2011.

Subsequently a settlement was reached for \$500,000. As at 31 July 2012 an amount of \$300,000 remains receivable based on the terms of the settlement, of which \$200,000 of this amount will not be recovered until 2014.

### 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 2012 \$'000	31 July 2011 \$'000
Trade payables <sup>(1)</sup>	17,259	14,202

- (1) The average credit period on purchases of certain goods from international suppliers 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.

## Notes to the Financial Statements 31 July 2012

### NOTE 21: Borrowings

Secured – at amortised cost	Note	31 July 2012 \$'000	31 July 2011 \$'000
<i>Current</i>			
Bill finance		10,000	33,600
Debtors finance		21,277	24,165
Finance lease liabilities	26	49	-
Trade finance		15,003	23,094
Less: capitalised transaction costs		(309)	-
<b>Total Current</b>		<b>46,020</b>	<b>80,859</b>
<i>Non-current</i>			
Bill finance		14,600	-
Finance lease liabilities	26	175	-
		<b>14,775</b>	<b>-</b>
Less: capitalised transaction costs		(25)	-
<b>Total Non-current</b>		<b>14,750</b>	<b>-</b>
Current borrowings		46,020	80,859
Non-current borrowings		14,750	-
		<b>60,770</b>	<b>80,859</b>

The Trade finance, Bill finance and Debtors finance facilities are secured by a first ranking registered mortgage debenture over all assets and undertakings of the Group.

Whilst the overall facilities were extended to the 31 October 2013, and therefore not due to be repaid until the financial year ending 31 July 2014, due to the nature of the debtor and trade finance facilities, amounts are continually repaid and redrawn based on normal trade debtor and trade creditor terms. Amounts due at 31 July 2012 in respect to these facilities have been disclosed as current in these financial statements.

### Financing Arrangements

During the year ended 31 July 2012, the Group complied with its externally imposed financing covenants.

During the period the Group's senior lender, National Australia Bank, agreed to vary the terms of the existing facilities agreement to permit the re-introduction of dividend payments in the 2012/13 financial year, provided certain financial conditions are met, as well as a slight variation in the timing of the 2013 borrowing payments. During September 2012 the Group negotiated an extension to the existing facilities to 31 October 2013.

Historically the company's cash flows have been such that headroom under the existing finance facilities has been periodically tight. In addition to a portion of the proceeds of the capital raising having been directed to improve working capital funding, Funtastic is also in the process of negotiating a revised finance facility with the objective of better aligning facility limits with the company's seasonal cash flow requirements, and which is better aligned to the growth plans of the business in the current retail environment. Funtastic has a good working relationship with its bankers and the directors are confident that these negotiations will be concluded by the end of November 2012.

The current interest rates are 8.77% on the debtors' finance facility, 8.28% on the trade finance facility and 7.13% on the commercial bill Facility (2011: 8.51%, 8.51% and 8.49% respectively).

### Financing Arrangements – Controlled Entities

All facilities are secured by a first ranking mortgage debenture of the Group. Refer to Note 37 Financial Instruments for further details regarding the lending covenants associated with the borrowings.

## Notes to the Financial Statements 31 July 2012

### NOTE 22: Provisions

	Note	31 July 2012 \$'000	31 July 2011 \$'000
<i>Current</i>			
Employee benefits <sup>(i)</sup>		1,900	1,473
Restructuring provision <sup>(ii)</sup>	33	300	1,822
Licensor audits <sup>(iii)</sup>		1,546	3,439
<b>Total Current</b>		<b>3,746</b>	<b>6,734</b>
<i>Non-current</i>			
Employee benefits <sup>(i)</sup>		402	92
Restructuring provision <sup>(ii)</sup>	33	999	1,348
<b>Total Non-current</b>		<b>1,401</b>	<b>1,440</b>
		<b>5,147</b>	<b>8,174</b>

	Restructuring (ii) \$'000	Licensor Audits (iii) \$'000	Total \$'000
Balance at 31 July 2011	3,170	3,439	6,609
Additional provisions recognised	-	1,033	1,033
Reductions resulting from re-measurement or settlement without cost	(268)	-	(268)
Reductions arising from payments/other sacrifices of future economic benefits	(1,603)	(2,926)	(4,529)
<b>Balance at 31 July 2012</b>	<b>1,299</b>	<b>1,546</b>	<b>2,845</b>

- (i) The provision for employee benefits represents annual leave and long service leave entitlements accrued and compensation claims made by employees.
- (ii) The remaining restructuring provision represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required to satisfy obligations in respect to onerous lease contracts (Note 33)
- (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.

### NOTE 23: Deferred purchase consideration

	Note	31 July 2012 \$'000	31 July 2011 \$'000
<i>Current</i>			
Deferred purchase consideration		3,502	1,320
<i>Non-Current</i>			
Deferred purchase consideration		6,015	-
	35	<b>9,517</b>	<b>1,320</b>

## Notes to the Financial Statements 31 July 2012

### NOTE 23: Deferred purchase consideration (continued)

The purchase consideration recognised by the Group as at 31 July 2011 of \$1,320,000 was satisfied during the financial year ended 31 July 2012, resulting in an additional amount recognised in Goodwill of \$1,780,000 (Note 16). The total amount payable under the earn-out arrangement on the acquisition of NSR (HK) Limited was \$3,100,000 and was settled by issuance of 20,000,000 ordinary shares at the prevailing share price of 15.5c per share – Note 27.

Additional deferred consideration has been recognised in respect to the KPM acquisition (Note 35).

### NOTE 24: Other Liabilities

	Note	31 July 2012 \$'000	31 July 2011 \$'000
<i>Current</i>			
Accrued royalties	32	3,658	2,682
GST payable		115	1,030
Lease incentives	33	33	212
Payroll accruals		747	704
Other accrued expenses		3,142	4,896
		<b>7,695</b>	<b>9,524</b>
<i>Non-current</i>			
Lease incentives	33	917	985
		<b>917</b>	<b>985</b>

### NOTE 25: Other financial liabilities

	Note	31 July 2012 \$'000	31 July 2011 \$'000
<i>Current</i>			
Derivatives			
Derivatives that are designated and effective as hedging instruments carried at fair value:			
Foreign currency forward contracts		1,329	2,744
Interest rate swaps		1,049	853
	37	<b>2,378</b>	<b>3,597</b>
Disclosed in the financial statements as:			
Current other financial liabilities		<b>2,378</b>	<b>3,597</b>

### NOTE 26: Leasing arrangements

The Group leases certain of its equipment under finance leases. The average lease term is 5 years. Of the three leases the Group has an option to purchase the equipment at the end of the lease terms in respect to one of the contracts. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 0.0% to 8.9% (2011: None) per annum.

## Notes to the Financial Statements 31 July 2012

### NOTE 26: Leasing arrangements (continued)

#### Finance lease liabilities

	Minimum Lease payments		Present value of minimum lease payments	
	31 July 2012 \$'000	31 July 2011 \$'000	31 July 2012 \$'000	31 July 2011 \$'000
Not later than one year	50	-	49	-
Later than one year and not later than five years	216	-	175	-
Later than five years	-	-	-	-
	266	-	224	-
Less future finance charges	(42)	-	-	-
Present value of minimum lease payments	224	-	224	-

	Note	31 July 2012 \$'000	31 July 2011 \$'000
Included in the consolidated financial statements			
Current borrowings	21	49	-
Non-Current borrowings	21	175	-
		224	-

### NOTE 27: Issued Capital

	31 July 2012 \$'000	31 July 2011 \$'000
<b>Share Capital</b>		
537,799,605 fully paid ordinary shares (2011: 340,997,682)	186,725	159,377

## Notes to the Financial Statements 31 July 2012

### NOTE 27: Issued Capital (continued)

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 2012		31 July 2011	
	Number of Shares '000	\$'000	Number of Shares '000	\$'000
<b>Movements in Ordinary Share Capital</b>				
Opening balance	340,998	159,377	340,998	159,377
Shares issued in exchange for purchase consideration from NSR acquisition <sup>(i)</sup> earn-out	20,000	3,094	-	-
Shares issued in relation to purchase consideration for acquisition of the PILLOW PETS™ business assets <sup>(ii)</sup>	6,959	693	-	-
Shares issued as part of the Institutional Placement in June 2012	139,117	19,466	-	-
Shares issued as part of the Retail Entitlement offer in July 2012	30,726	4,095	-	-
<b>Closing balance</b>	<b>537,800</b>	<b>186,725</b>	<b>340,998</b>	<b>159,377</b>

Note: shares in respect of the Retail Entitlement were allotted on 1 August 2012

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

During the year the Company issued:

- (i) 20,000,000 shares of the prevailing market value consideration of 15.5c on 18 March 2012 in respect of the deferred acquisition of NSR (HK) Limited
- (ii) 6,959,000 on 24 January 2012 in respect of the acquisition of PILLOW PETS™ business assets.

#### Options

##### Executive Share Options

At 31 July 2012, 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 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.

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 38.

##### 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 was 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.

## Notes to the Financial Statements 31 July 2012

### NOTE 27: Issued Capital (continued)

#### Rights

##### Employee Performance Share Rights

At 31 July 2012, employees held options over 10,000 ordinary shares of the Company which will expire on 2 September 2013. At 31 July 2011, employees held options over 10,000 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 38.

### NOTE 28: Accumulated losses

	31 July 2012 \$'000	31 July 2011 \$'000
Opening balance	(124,169)	(85,964)
Net profit/(loss) after tax for the year	10,436	(38,205)
Dividends paid	-	-
Balance at the end of financial year	(113,733)	(124,169)

### NOTE 29: Reserves

	31 July 2012 \$'000	31 July 2011 \$'000
Foreign currency translation reserve	(1,186)	(966)
Equity-settled benefits reserve	1,616	1,474
Cash flow hedging reserve	(1,665)	(2,518)
	(1,235)	(2,010)

#### Foreign Currency translation reserve

	31 July 2012 \$'000	31 July 2011 \$'000
Balance at the beginning of the period	(966)	(1,048)
Translation of foreign operations	(220)	82
	(1,186)	(966)

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.



## Notes to the Financial Statements 31 July 2012

### NOTE 29: Reserves (continued)

#### Equity settled benefit reserve

	31 July 2012 \$'000	31 July 2011 \$'000
Balance at the beginning of the period	1,474	1,374
Share based payments	142	100
	<b>1,616</b>	<b>1,474</b>

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 Employee 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 38 to the financial statements.

#### Cash flow hedging reserve

	31 July 2012 \$'000	31 July 2011 \$'000
Balance at the beginning of the period	(2,518)	(479)
Gain/(Loss) recognised:		
Forward exchange contracts	3,391	1,900
Interest rate swaps	(904)	(934)
Transferred to profit or loss <sup>(i)</sup>		
Forward exchange contracts	(23)	638
Interest rate swaps	708	272
Transferred to initial carrying amount of hedged item:		
Forward exchange contracts	(1,953)	(4,806)
Interest rate swaps	-	12
Deferred tax asset/(liability) arising on hedges	(366)	879
	<b>(1,665)</b>	<b>(2,518)</b>
<i>Represented by:</i>		
Forward exchange contracts	(1,329)	(2,745)
Interest rate swap	(1,049)	(853)
Deferred tax	713	1,079
	<b>(1,665)</b>	<b>(2,518)</b>

(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 assessment.

	31 July 2012 \$	31 July 2011 \$
Revenue	-	12
Finance costs	(1,561)	(272)
	<b>(1,561)</b>	<b>(260)</b>

## Notes to the Financial Statements 31 July 2012

### NOTE 30: Earnings per share

	31 July 2012 Cents per share	31 July 2011 Cents per share
<b>Basic earnings per share</b>		
From continuing operations	2.77	(11.2)
<i>Earnings per share</i>	2.77	(11.2)
<b>Diluted earnings per share</b>		
From continuing operations	2.77	(11.2)
<i>Earnings per share</i>	2.77	(11.2)
<b>Basic earnings per share</b>		
The earnings and weighted average number of ordinary shares used in the calculation of earnings per share are as follows:		
	2012 \$'000	2011 \$'000
Net profit/(loss)	10,436	(38,205)
Profit/(loss) used in the calculation of total basic EPS from continuing operations	10,436	(38,205)
	2012 No. '000	2011 No. '000
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	377,238	340,998
<b>Diluted earnings per share</b>		
The earnings used in the calculation of diluted earnings per share are as follows:		
	2012 \$'000	2011 \$'000
Net profit/(loss)	10,436	(38,205)
Profit/(loss) used in the calculation of diluted EPS from continuing operations	10,436	(38,205)
	2012 No. '000	2011 No. '000
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	377,238	340,998
Shares deemed to be issued for no consideration in respect of:		
Earnout shares (Note 23) all issued in year	-	15,918
Share options and performance share rights	10	694
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	377,248	357,610

## Notes to the Financial Statements 31 July 2012

### NOTE 30: 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 2012 No. '000	31 July 2011 No. '000
Potential options non-dilutive	6,700	6,700
	<b>6,700</b>	<b>6,700</b>

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

	31 July 2012 No. '000	31 July 2011 No. '000
Options to purchase ordinary shares pursuant to the employee share option plan	-	-
	<b>-</b>	<b>-</b>

### NOTE 31: Dividends

No dividends were declared or paid in 2011 or 2012.

	31 July 2012 \$'000	31 July 2011 \$'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 32: Lease Commitments

#### Lease Commitments

Non-cancellable operating lease commitments are disclosed in Note 33 to the financial statements. The Group entered into 3 finance lease arrangements during the year ended 31 July 2012 in respect to office equipment. The total due as at 31 July 2012 was \$224,000 (2011: \$nil) and are disclosed in Note 21 of these accounts.

#### 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 are as follows:

	31 July 2012 \$'000	31 July 2011 \$'000
Not later than one year	1,267	2,147
Later than one year but not later than two years	294	377
Later than two years but not later than five years	75	112
	<b>1,636</b>	<b>2,636</b>

The expected future payments in relation to these license agreements are recognised as a liability as at 31 July 2012 (Note 24).

## Notes to the Financial Statements 31 July 2012

### NOTE 33: Operating Leases

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. The Group has entered into a non-cancellable sub-lease arrangement in respect to a warehouse premise. Minimum lease payments recognised as an expense.

	31 July 2012 \$'000	31 July 2011 \$'000
Minimum lease payments	1,887	-
Sub-lease payments received	(219)	-
	<u>1,668</u>	<u>-</u>
	31 July 2012 \$'000	31 July 2011 \$'000
Commitments in relation to non-cancellable operating leases contracted for but not capitalised in the accounts are payable as follows:		
No later than 1 year	2,358	2,563
Later than 1 but not later than 5 years	9,621	7,781
Later than 5 years	384	1,469
	<u>12,363</u>	<u>11,813</u>
Sub-lease receivables in relation to non-cancellable operating leases contracted for but not capitalised in the accounts are receivable as follows:		
No later than 1 year	(607)	-
Later than 1 but not later than 5 years	(2,538)	-
Later than 5 years	-	-
	<u>(3,145)</u>	<u>-</u>
Net commitments payable under non-cancellable operating leases contracted for but not capitalised in the accounts:		
No later than 1 year	1,751	2,563
Later than 1 but not later than 5 years	7,083	7,781
Later than 5 years	384	1,469
	<u>9,218</u>	<u>11,813</u>

## Notes to the Financial Statements 31 July 2012

### NOTE 33: Operating Leases (continued)

#### Liabilities recognised in respect of non-cancellable operating leases

	Note	31 July 2012 \$'000	31 July 2011 \$'000
Onerous lease contracts			
Current	22	300	1,822
Non-Current	22	999	1,348
Lease incentives			
Current	24	33	212
Non-current	24	917	985
		<b>2,249</b>	<b>4,367</b>

### NOTE 34: Subsidiaries

Name of Entity	Country of Incorporation	Equity Holding	
		31 July 2012 %	31 July 2011 %
<b>Company</b>			
Funtastic Limited <sup>(i)</sup>	Australia	100	100
<b>Subsidiaries</b>			
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 Productions Pty Limited (formerly known as 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.

## Notes to the Financial Statements 31 July 2012

### NOTE 34: Subsidiaries (continued)

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

<b>Statement of Comprehensive Income</b>	<b>31 July 2012 \$'000</b>	<b>31 July 2011 \$'000</b>
<b><i>Continuing operations</i></b>		
Revenue	<b>146,533</b>	172,010
Cost of goods sold	<b>(80,415)</b>	(118,680)
Gross profit	<b>66,118</b>	53,330
Investment income	<b>219</b>	-
Warehouse and distribution	<b>(14,096)</b>	(15,528)
Marketing and selling	<b>(24,672)</b>	(30,263)
Administration	<b>(10,454)</b>	(13,606)
Impairment and restructuring costs	<b>-</b>	(20,973)
Earnings before interest, taxation, amortisation and depreciation expenses (EBITDA)	<b>17,115</b>	(27,040)
Finance costs	<b>(7,027)</b>	(7,220)
Depreciation and amortisation expenses	<b>(2,220)</b>	(2,342)
<b>Profit/(loss) before income tax</b>	<b>7,868</b>	(36,602)
Income tax benefit	<b>1,305</b>	283
<b>Profit/(loss) for the year from continuing operations</b>	<b>9,173</b>	(36,319)
<b><i>Other comprehensive income</i></b>		
Profit/(loss) on cash flow hedges taken to equity	<b>853</b>	(2,039)
Other comprehensive income for the year (net of tax)	<b>853</b>	(2,039)
<b>Total comprehensive income for the year</b>	<b>10,026</b>	(38,358)

## Notes to the Financial Statements 31 July 2012

### NOTE 34: Subsidiaries (continued)

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

Statement of Financial Position	31 July 2012 \$'000	31 July 2011 \$'000
<b>Current Assets</b>		
Cash	1,910	1,599
Trade and other receivables	33,342	25,791
Inventories	13,969	20,644
Other	27,685	28,359
Other financial assets	5,989	5,989
Total Current Assets	82,895	82,382
<b>Non-Current Assets</b>		
Property, plant and equipment	1,833	2,296
Goodwill	78,845	62,427
Other intangibles	10,123	2,320
Investments	-	4
Deferred tax assets	13,858	12,096
Other financial assets	200	-
Total Non-Current Assets	104,859	79,143
<b>Total Assets</b>	187,754	161,525
<b>Current Liabilities</b>		
Trade and other payables	14,696	13,497
Borrowings	46,020	80,859
Provisions	3,734	6,721
Deferred purchase consideration	3,502	1,320
Other	2,152	352
Other financial liabilities	2,378	3,597
Total Current Liabilities	72,482	106,346
<b>Non-Current Liabilities</b>		
Borrowings	14,750	-
Provisions	1,400	1,440
Deferred purchase consideration	6,015	-
Deferred tax liabilities	5,201	4,410
Other	892	957
Total Non-Current Liabilities	28,258	6,807
<b>Total Liabilities</b>	100,740	113,153
<b>Net Assets</b>	87,014	48,372
<b>Equity</b>		
Issued capital	186,725	159,212
Accumulated losses	(99,662)	(108,835)
Reserves	(49)	(2,005)
<b>Total Equity</b>	87,014	48,372

## Notes to the Financial Statements 31 July 2012

### NOTE 35: Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Cost of acquisition \$'000
2012				
Trading assets of Kidz@Play Pty Ltd (KPM)	Toy Distribution and manufacture	29 February 2012	0%	12,603

The acquired business contributed revenue of \$6,190,793 to the Group for the period 29 February 2012 to 31 July 2012. There were no businesses acquired during the period ended 31 July 2011.

As at 31 July 2012 the acquisition of the KPM business has been accounted for in accordance with AASB 3 Business Combinations. The fair values are presented below:

#### Net assets acquired and liabilities assumed on acquisition

	Final Fair value on acquisition \$'000
<b>Current assets</b>	
Cash and cash equivalents	25
Inventories	455
<b>Non-current assets – licenses<sup>(1)</sup></b>	5,290
<b>Current liabilities</b>	
Trade creditors	(246)
Shareholder loans	(86)
Other liabilities	(259)
<b>Non-current liabilities – deferred tax liabilities</b>	(1,587)
	<b>3,592</b>

#### Goodwill on acquisition

	Note	Kidz@Play Pty Limited
Cash to Vendor		3,086
Deferred consideration payable	23	9,517
Total Consideration		12,603
Fair value of net identifiable assets acquired		3,592
Goodwill arising on acquisition	16	9,011

(1) The net identifiable intangible represents value placed on a license agreement. This was valued at the time of acquisition.

The consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and access to global licensing opportunities. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

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

#### a) Net cash outflow on acquisition of subsidiaries

	Year ended 31 July 2012 \$'000	Year ended 31 July 2011 \$'000
Consideration paid in cash	3,086	-
Less: cash and cash equivalent balances acquired	(25)	-
	<b>3,061</b>	-



## Notes to the Financial Statements 31 July 2012

### NOTE 36: Notes to the cash flow statements

#### a) Reconciliation of cash and cash equivalents

	31 July 2012 \$'000	31 July 2011 \$'000
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:		
Cash and cash equivalents	2,257	1,948
	<b>2,257</b>	<b>1,948</b>

#### b) Financing facilities

	31 July 2012 \$'000	31 July 2011 \$'000
<b>Total Financing Facilities Available</b>		
National Debtor Finance Facility	22,000	25,000
Trade Refinance Facility	15,300	23,300
Commercial Bill Facility	24,600	33,600
Letters of Credit	11,000	12,000
Bank Guarantees	3,300	2,300
Other Facilities	250	250
	<b>76,450</b>	<b>96,450</b>
<b>Reconciliation of Total Financing Facilities</b>		
<b>Facilities Used at Balance Date</b>		
National Debtor Finance Facility	21,277	24,165
Trade Refinance Facility	15,003	23,094
Commercial Bill Facility	24,600	33,600
Letters of Credit	10,487	7,384
Bank Guarantees	3,273	2,275
Other Facilities	150	28
	<b>74,790</b>	<b>90,546</b>
<b>Facilities Unused at Balance Date</b>		
National Debtor Finance Facility	723	835
Trade Refinance Facility	297	206
Commercial Bill Facility	-	-
Letters of Credit	513	4,616
Bank Guarantees	27	25
Other Facilities	100	222
	<b>1,660</b>	<b>5,904</b>
<b>Total Financing Facilities</b>	<b>76,450</b>	<b>96,450</b>

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

## Notes to the Financial Statements 31 July 2012

### NOTE 36: Notes to the cash flow statement (continued)

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

	31 July 2012 \$'000	31 July 2011 \$'000
Profit/(Loss) after income tax	10,436	(38,205)
Income tax recognised in profit and loss	(606)	(91)
Amortisation	1,530	1,046
Impairment	-	6,172
Depreciation	1,174	702
Interest and other investment income	(281)	(134)
Share options expense	142	100
Loss on sale of non-current assets	395	82
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
(Increase)/decrease in trade and other receivables	(10,639)	11,309
Decrease in inventories	6,077	7,307
Decrease in deferred tax asset	(867)	1,854
(Increase)/decrease in prepayments and other current assets	(2,083)	2,697
Decrease in other financial assets	-	4,835
Increase in trade creditors	3,359	2,527
Increase/(decrease) in current tax liability	468	(126)
(Decrease)/increase in provisions	(3,027)	6,321
Decrease in deferred tax liability	(398)	(2,365)
Decrease in other liabilities	(1,897)	(4,050)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>3,783</b>	<b>(19)</b>

### NOTE 37: 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 27, 28 and 29 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.

## Notes to the Financial Statements 31 July 2012

### NOTE 37: Financial Instruments (continued)

During the year ended 31 July 2012, the Group complied with its externally imposed financing covenants.

Maturity of the facilities has been extended subsequent to 31 July 2012 to 31 October 2013

#### 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.

Financial Instrument	31 July 2012 \$'000	31 July 2011 \$'000
<b>Financial assets</b>		
Derivative instruments in designated hedge accounting relationships	-	-
Cash and cash equivalents	2,257	1,948
Loans and receivables	38,018	27,254
<b>Financial liabilities</b>		
Derivative instruments in designated hedge accounting relationships	2,378	3,597
Amortised cost	97,132	104,988

#### 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 rate risk 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 2012, 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.

## Notes to the Financial Statements 31 July 2012

### NOTE 37: 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
US dollars	7,268	4,705	10,368	4,478
NZ dollars	97	148	663	927
Euro	17	316	-	10
Other	-	50	118	-

#### 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		NZ Impact	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<i>10% increase in AUD against foreign currency</i>						
Profit & Loss <sup>(i)</sup>	283	20	2	27	52	(71)
Other equity <sup>(ii)</sup>	1,943	965	-	-	-	-
<i>10% decrease in AUD against foreign currency</i>						
Profit & Loss <sup>(i)</sup>	(344)	(20)	(2)	(27)	(63)	71
Other equity <sup>(ii)</sup>	(1,811)	(1,178)	-	-	-	-

(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.

## Notes to the Financial Statements 31 July 2012

### NOTE 37: 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	
	2012	2011	2012	2011	2012	2011	2012	2011
Outstanding contracts								
Buy US dollar	AUD/USD		US/Euro \$'000	US/Euro \$'000	A\$'000	A\$'000	\$'000	\$'000
0-12 months	0.9873	0.9132	30,747	16,348	31,141	17,902	29,808	(2,744)
Buy Euro	AUD/Euro		US/Euro \$'000	US/Euro \$'000	A\$'000	A\$'000	\$'000	\$'000
0-12 months	0.8175	-	600	-	734	-	724	-
<b>Total</b>					<b>31,875</b>	<b>17,902</b>	<b>30,533</b>	<b>(2,744)</b>

#### Forward foreign exchange contracts

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 \$1,329,000 (2011: \$2,744,000).

During the year ended 31 July 2012 a loss on hedging instruments for the Group of \$1,329,000 (31 July 2011: loss \$2,744,000) has been brought to account in other current financial assets and liabilities (Note 25). An amount, net of tax, was transferred to equity (Note 29). It is anticipated these purchases will take place during the year to 31 July 2013 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.

#### 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 a 50 basis point 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 50 basis points lower and all other variables were held constant, the Group's:

- Net loss after taxation would increase/decrease by \$870,000/(\$359,500) respectively (2011: increase/decrease by \$662,000). This is mainly due to the Group's exposure to interest rates on its variable rate borrowings; and
- Equity would increase/decrease by \$366,500/(\$226,000) respectively (2011: \$992,000/(\$992,000)). This is due to the Group's interest rate swap entered 1 June 2011.

## Notes to the Financial Statements 31 July 2012

### NOTE 37: Financial instruments (continued)

#### Interest Rate Swap Contracts

Bank loans of the Group currently bear an average variable interest rate of 8.00% (2011: 8.51%). 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 (2011: swap in place covered 70% of the long term loan principal outstanding). The fixed interest rate is 5.53% (2011: 5.53%) and the variable rate is the bank bill rate of the term of the underlying bill which at balance date was 3.63% (2011: 4.99%).

As at 31 July 2012, 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		National principal amount		Fair value	
	2012 %	2011 %	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Less than 1 year	-	-	-	-	-	-
1-2 years	5.53	-	64,905	-	(1,209)	-
2-3 years	-	5.53	-	70,382	-	(853)
			64,905	70,382	(1,209)	(853)

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.

#### 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.

## Notes to the Financial Statements 31 July 2012

### NOTE 37: Financial instruments (continued)

#### 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>2012</b>							
Non-interest bearing	-	3,452	13,807	11,837	6,932	-	36,028
Variable interest rate instruments	7.98	3,654	7,360	3,160	4,770	-	18,944
Fixed interest rate instruments	9.31	8,533	17,194	7,517	11,585	-	44,829
		<b>15,639</b>	<b>38,361</b>	<b>22,514</b>	<b>23,287</b>	<b>-</b>	<b>99,801</b>
<b>2011</b>							
Non-interest bearing	-	2,840	11,361	9,928	-	-	24,129
Variable interest rate instruments	8.51	24,430	-	-	-	-	24,430
Fixed interest rate instruments	9.03	57,027	-	-	-	-	57,027
		<b>84,297</b>	<b>11,361</b>	<b>9,928</b>	<b>-</b>	<b>-</b>	<b>105,586</b>

## Notes to the Financial Statements 31 July 2012

### NOTE 37: 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
<b>2012</b>							
Non-interest bearing	-	7,543	30,173	100	200	-	38,017
Variable interest rate instruments	3.82	2,257	-	-	-	-	2,257
		<b>9,800</b>	<b>30,173</b>	<b>100</b>	<b>200</b>	<b>-</b>	<b>40,274</b>
<b>2011</b>							
Non-interest bearing	-	5,306	21,542	406	-	-	27,254
Variable interest rate instruments	3.57	1,948	-	-	-	-	1,948
		<b>7,254</b>	<b>21,542</b>	<b>406</b>	<b>-</b>	<b>-</b>	<b>29,202</b>

#### 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.

#### Fair value measurements recognised in the consolidated statement of financial position

The carrying value of financial instruments that are measured subsequent to initial recognition at fair value are detailed in Note 25. These are all classified as level 2 fair value measurements as described below:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).



### NOTE 38: 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;
- 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.

#### 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.

## Notes to the Financial Statements 31 July 2012

### NOTE 38: 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.

No options were granted under the plan during the current financial year or preceding financial year.

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

2012						
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
						<b>5,200,000</b>

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
						<b>5,200,000</b>

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

## Notes to the Financial Statements 31 July 2012

### NOTE 38: Share-based payments (continued)

#### Fair value of options granted (continued)

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

	2012		2011	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at the beginning of the financial year	5,200,000	0.161	6,950,000	0.164
Granted during the financial year	-	-	-	-
Forfeited during the financial year	-	-	(1,750,000)	(0.166)
Exercised during the financial year	-	-	-	-
Expired during the financial year	-	-	-	-
Balance at the end of the financial year	5,200,000	0.161	5,200,000	0.161
Exercisable at the end of the financial year	-	-	-	-

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

The weighted average remaining contractual life of the share options outstanding as at 31 July 2012 is 2.12 years (31 July 2011: 3.12 years).

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

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 (2011: \$nil).

Market value of shares issued to executives on the exercise of options as at their issue date in the financial period was \$nil (2011: \$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 I

- 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;
- 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
- executive remaining in employment at the date of vesting.

## Notes to the Financial Statements 31 July 2012

### NOTE 38: Share-based payments (continued)

#### EPSR Type 2

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

- for 50% to vest the average diluted earnings per share (EPS) growth rate over three years is required to be 11%p.a;
- for the remaining 50% to vest the average diluted EPS growth rate over three years is required to be 15%p.a;
- 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
- 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:

- 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);
- 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;
- 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
- the employee being in continuous employment with the Company until 31 August in the year following the three years.

Rights granted under the plan carry no dividend or voting rights.

When exercisable, each right is convertible into one ordinary share.

No consideration is payable by participants if the performance measures are achieved and the shares are granted.

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

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

2012						
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
						<b>10,000</b>
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
						<b>10,000</b>

No Rights were vested at the reporting date.

## Notes to the Financial Statements 31 July 2012

### NOTE 38: Share-based payments (continued)

#### 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.

The model inputs for performance rights granted include:

ESPR 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 2012		31 July 2011	
	Number of EPSRs	Weighted average exercise price \$	Number of EPSRs	Weighted average exercise price \$
Balance at the beginning of the financial year	10,000	-	50,000	-
Granted during the financial year	-	-	-	-
Forfeited during the financial year	-	-	-	-
Exercised during the financial year	-	-	-	-
Expired during the financial year	-	-	(40,000)	-
Balance at the end of the financial year	10,000	-	10,000	-
Exercisable at the end of the financial year	-	-	-	-

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

The fair value of shares issued on the exercise of rights is the weighted average price at which the company's shares were traded on the Australian Stock Exchange on the day prior to the exercise of the rights.

The weighted average remaining contractual life for the performance share rights as at 31 July 2012 is 1.09 years (2011: 2.09 years).

During the financial year, no performance share rights were granted (2011: nil).

## Notes to the Financial Statements 31 July 2012

### NOTE 39: 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
Stephen Heath	Independent Non-executive Director
James Flintoft	Independent Non-executive Director – resigned 2 September 2011
Linda Norquay	Independent Non-executive Director – appointed 2 September 2011
Paul Wiegard	Executive Director – appointed 24 October 2011
James Cody	Chief Financial Officer and Company Secretary
Tim Anderson	Joint Managing Director – Madman Entertainment

#### Key management personnel compensation

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

	Year ended 31 July 2012 \$	Year ended 31 July 2011 \$
Short-term employee benefits	2,568,758	2,551,991
Post-employment benefits	145,041	211,837
Other long-term benefits	37,337	9,547
Termination benefits	-	333,995
Share-based payments	141,637	110,221
	<b>2,892,773</b>	<b>3,217,591</b>

### NOTE 40: 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 34 to the financial statements.

#### b) Transactions with Key Management Personnel

##### Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 39 to the financial statements.

##### Loans to key management personnel

Outstanding loans from key management personnel of the Group or from their related entities are

	31 July 2012 \$	31 July 2011 \$
Nir Pizmony	828,363	1,671,106

## Notes to the Financial Statements 31 July 2012

### NOTE 40: Related party transactions (continued)

#### Key management personnel equity holdings

##### Option holdings

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

Year ended 31 July 2012	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
<b>Non-Executive Directors</b>						
Shane Tanner	-	-	-	-	-	-
Craig Mathieson	-	-	-	-	-	-
Stephen Heath	-	-	-	-	-	-
Linda Norquay <sup>(2)</sup>	-	-	-	-	-	-
James Flintoft <sup>(1)</sup>	-	-	-	-	-	-
<b>Executive Directors</b>						
Stewart Downs	4,200,000	-	-	-	4,200,000	-
Nir Pizmony	-	-	-	-	-	-
Paul Wiegard <sup>(3)</sup>	-	-	-	-	-	-
<b>Executives</b>						
Tim Anderson	-	-	-	-	-	-
James Cody	1,000,000	-	-	-	1,000,000	-

(1) Mr J Flintoft – resigned effective 2 September 2011

(2) Mrs L Norquay – appointed effective 2 September 2011

(3) Mr P Wiegard – appointed effective 24 October 2011

## Notes to the Financial Statements 31 July 2012

### NOTE 40: Related party transactions (continued)

#### Key management personnel equity holdings (continued)

Year 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
<b>Non-Executive Directors</b>						
Shane Tanner	-	-	-	-	-	-
Craig Mathieson	-	-	-	-	-	-
Stephen Heath <sup>(1)</sup>	-	-	-	-	-	-
James Flintoft	-	-	-	-	-	-
<b>Executive Directors</b>						
Stewart Downs	4,200,000	-	-	-	4,200,000	-
Nir Pizmony	-	-	-	-	-	-
<b>Executives</b>						
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.

#### 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.

Year ended 31 July 2012	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
<b>Executives</b>						
Stewart Downs	-	-	-	-	-	-
Nir Pizmony	-	-	-	-	-	-
Tim Anderson	-	-	-	-	-	-
Paul Wiegard	-	-	-	-	-	-
James Cody	-	-	-	-	-	-



## Notes to the Financial Statements 31 July 2012

### NOTE 40: Related party transactions (continued)

#### Performance Share Right holdings (continued)

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.

Year 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
<b>Executives</b>						
Stewart Downs	-	-	-	-	-	-
Nir Pizmony	-	-	-	-	-	-
James Cody	-	-	-	-	-	-
Tim Anderson	-	-	-	-	-	-
Paul Wiegard	-	-	-	-	-	-
Adam Kocks <sup>(1)</sup>	20,000	-	-	(20,000)	-	-

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

#### Shareholdings

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.

Year ended 31 July 2012	Balance at the start of the period	Shares purchased through rights and placement issues during the period	Shares purchased privately during the period	Received as consideration on acquisition of business	Balance at the end of the period
<b>Directors</b>					
Shane Tanner	200,000	200,000	-	-	400,000
Stewart Downs	2,672,776	-	-	-	2,672,776
Nir Pizmony	14,733,683	3,103,448	-	12,848,000	30,685,131
Craig Mathieson	98,555,088	13,793,103	777,351	-	113,125,543
Steven Heath	-	166,667	500,000	-	666,667
Linda Norquay	-	-	-	-	-
Paul Wiegard	1,555,870	344,828	-	-	1,900,698
James Flintoft	1,350,848	-	-	-	N/A <sup>(1)</sup>
<b>Executives</b>					
James Cody	-	-	-	-	-
Tim Anderson	1,555,870	-	-	-	1,555,870

(1) Not a director as at 31 July 2012

## Notes to the Financial Statements 31 July 2012

### NOTE 40: Related party transactions (continued)

#### Shareholdings (continued)

Year 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	2,572,776	-	100,000	-	-	2,672,776
Craig Mathieson	92,774,002	-	5,781,086	-	-	98,555,088
Nir Pizmony	17,469,737	-	-	-	(2,736,054)	14,733,683
Stephen Heath	-	-	-	-	-	-
James Flintoft	1,350,848	-	-	-	-	1,350,848
<b>Executives</b>						
James Cody	-	-	-	-	-	-
Tim Anderson	1,555,870	-	-	-	-	1,555,870
Paul Wiegard	1,555,870	-	-	-	-	1,555,870
Adam Kocks <sup>(2)</sup>	30,000	-	-	-	-	30,000
Garry Mudford <sup>(1)</sup>	250,000	-	-	-	-	250,000

(1) Mr G Mudford – redundant effective 20 June 2010

(2) Mr A Kocks – redundant effective 2 September 2010

## Notes to the Financial Statements 31 July 2012

### NOTE 40: 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 2012 \$	31 July 2011 \$
Consolidated revenue includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Gross revenue	2,134	-
Interest revenue	-	-
Dividend revenue	-	-
	<b>2,134</b>	-
Consolidated profit includes the following amounts arising from transactions with key management personnel of the Group or their related parties:		
Cost of goods sold	3,447,988	7,617,083
Interest expense	120,079	-
Net amounts written off and allowances for doubtful receivables	-	-
	<b>3,568,067</b>	7,617,083
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
Current – Inventories	-	74,509
Current – Trade receivables: Allowance for doubtful receivables	-	-
Non-current	-	-
	-	284,510
Total liabilities arising from transactions other than compensation with key management personnel or their related parties:		
Current	1,747,387	1,152,274
Non-current	-	-
	<b>1,747,387</b>	1,152,274

The above transactions were performed at arm's length.

## Notes to the Financial Statements 31 July 2012

### NOTE 40: Related party transactions (continued)

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

- Sales of \$2,134 (2011: \$nil) to Petite Living Pty Limited a company related to Mr Craig Mathieson and Mr Stewart Downs with an amount due as at 31 July 2012 of \$503 (2011: nil);
- Purchases of \$49,717 (2011: \$3,057,637) from Toymonster Limited a Hong Kong registered company related to Mr Nir Pizmony;
- Purchases of \$3,168,741 (2011: \$4,348,065) from Madman Printing Pty Limited a company related to Mr Tim Anderson and Mr Paul Wiegard;
- Royalty payments of \$229,530 (2011: \$211,381) to Wild Pumpkin Royalties Pty Limited a company related to Mr Nir Pizmony. Nir ceased to be a shareholder of Wild Pumpkin during the year;
- 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 repays the shareholder loan by the end of the financial year ending 31 July 2013. As at 31 July 2012 the amount owing under this arrangement was \$828,363 (2011: \$1,671,106). The loan is denominated in US dollars and attracts interest at a rate linked to the Group's cost of borrowing. Interest accrued as at 31 July 2012 was \$120,079.
- Payments of \$100,000 (2011: nil) were made to Kooyongkoot Pty Ltd, a company related to Mr Craig Mathieson in respect to underwriting fees in relation to the Capital Raising conducted in the year.

#### d) Transactions with other related parties

Transactions between Funtastic Limited and other entities in the wholly-owned Group during the financial years ended 31 July 2012 and 31 July 2011:

- 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.

### NOTE 41: Remuneration of Auditors

	31 July 2012 \$	31 July 2011 \$
<i>Auditor of the parent entity</i>		
Audit and review of the financial reports of the entity	270,000	205,000
Audit of the financial report of overseas subsidiary <sup>(1)</sup>	24,700	25,000
Preparation of tax return	7,899	-
General taxation services	15,891	17,000
	<b>318,490</b>	<b>247,000</b>

The auditor of Funtastic Limited is Deloitte Touche Tohmatsu.

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

## Notes to the Financial Statements 31 July 2012

### NOTE 42: Parent entity disclosures

#### Financial Position

	31 July 2012 \$	31 July 2011 \$
<i>Assets</i>		
Current assets	71,021	84,325
Non-current assets	105,846	79,645
	<b>176,867</b>	163,970
<i>Liabilities</i>		
Current liabilities	76,445	119,646
Non-current liabilities	28,671	9,745
	<b>105,116</b>	129,391
<i>Equity</i>		
Issued capital	186,725	159,377
Accumulated losses prior to 31 July 2011	(123,755)	(123,755)
Profits reserved 2012	8,826	-
<i>Reserves</i>		
Equity-settled benefits	1,616	1,474
Cash flow hedging	(1,665)	(2,517)
	<b>71,747</b>	34,579

#### Financial Performance

	Year ended 31 July 2012 \$'000	Year ended 31 July 2011 \$'000
Profit/(loss) for the year	8,826	(36,010)
Other comprehensive income	996	(1,939)
Total comprehensive income	<b>9,822</b>	(37,949)

## Notes to the Financial Statements 31 July 2012

### NOTE 42: Parent entity disclosures (continued)

#### Commitments for expenditure

	31 July 2012 \$	31 July 2011 \$
<i>Lease commitments</i>		
Commitments in relation to non-cancellable operating leases contracted for but not capitalised in the accounts are payable as follows;		
Not later than 1 year	2,301	2,506
Later than 1 but not later than 5 years	9,563	7,668
Later than 5 years	384	1,469
	<b>12,248</b>	<b>11,643</b>
Sub-lease commitments in relation to non-cancellable operating leases contracted for but not capitalised in the accounts:		
Not later than 1 year	(607)	-
Later than 1 but not later than 5 years	(2,538)	-
Later than 5 years	-	-
	<b>(3,145)</b>	<b>-</b>
Net commitments payable under non-cancellable operating leases contracted but not capitalised in the accounts:		
Not later than 1 year	1,694	2,506
Later than 1 but not later than 5 years	7,025	7,668
Later than 5 years	384	1,469
	<b>9,103</b>	<b>11,643</b>
<i>License guarantee commitments</i>		
Not later than 1 year	1,267	2,147
Later than 1 but not later than 5 years	294	377
Later than 5 years	75	112
	<b>1,636</b>	<b>2,636</b>

Contingent liabilities as disclosed in Note 44 relate to the parent entity as well as the Group.

### NOTE 43: Subsequent Events

In September 2012, the Group secured an extension of its financing arrangements with its senior lender, National Australia Bank, to 31 October 2013.

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.

## Notes to the Financial Statements 31 July 2012

### NOTE 44: Contingent Liabilities

Contingent Liabilities	31 July 2012 \$'000	31 July 2011 \$'000
Legal Proceedings <sup>(1)</sup>	185	-

(1) An entity of the Group is subject to a legal claim from the liquidator of a customer which appointed a voluntary administrator on 16 December 2008 in respect of amounts paid to the entity immediately prior to the administrator's appointment.

The original amount claimed was \$1,320,842 which was subsequently revised to \$285,486. As at 31 July 2012 the Group has provided for \$100,000 based on its best estimate of the likely settlement. The Directors believe that based on legal advice, this amount should be sufficient to satisfy the potential obligations in full.

The legal claim is expected to be settled in the course of the next twelve months.

### NOTE 45: 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 18 September 2012

### 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	781	-	-
1,001 – 5,000	1,641	-	-
5,001 – 10,000	721	-	-
10,001 – 100,000	983	-	4
100,001 and over	196	2	-
	<b>4,322</b>	<b>2</b>	<b>4</b>

There are 1,894 shareholders holding less than a marketable parcel of ordinary shares.

### Substantial holders

Substantial holders in the Company are set out below:

	Shares	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	99,474,978	18.50
NATIONAL NOMINEES LIMITED	59,617,662	11.09
BELL POTTER NOMINEES LTD <BB NOMINEES A/C>	53,659,385	9.98
CITICORP NOMINEES PTY LIMITED	42,014,135	7.81
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C>	33,317,687	6.20



## Additional stock exchange information as at 18 September 2012

Twenty largest quoted equity security holders		Shares	%
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	99,474,978	18.50
2	NATIONAL NOMINEES LIMITED	59,617,662	11.09
3	BELL POTTER NOMINEES LTD <BB NOMINEES A/C>	53,659,385	9.98
4	CITICORP NOMINEES PTY LIMITED	42,014,135	7.81
5	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C>	33,317,687	6.20
6	J P MORGAN NOMINEES AUSTRALIA LIMITED	27,790,370	5.17
7	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	15,057,456	2.80
8	G HARVEY NOMINEES PTY LTD <HARVEY 1995 DISCRETIONARY AC>	13,820,687	2.57
9	PIZ BY PIZ PTY LTD	12,848,000	2.39
10	MR HOD PIZEM	10,644,886	1.98
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,876,201	1.84
12	CJ PRODUCTS LLC	6,959,137	1.29
13	RENSH PTY LTD	6,000,000	1.12
14	DDVM SUPERANNUATION NOMINEES PTY LTD <DDVM SUPERANNUATION FUND A/C>	5,700,438	1.06
15	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	5,523,434	1.03
16	MR NIR PIZMONY & MRS MARIA LUTGARDA PIZMONY <PIZMONY FAMILY S/F A/C>	4,613,995	0.86
17	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PIIC A/C>	3,917,378	0.73
18	BNP PARIBAS NOMS PTY LTD <MASTER CUST DRP>	3,373,103	0.63
19	MR CHRISTOPHER IAN WALLIN & MS FIONA KAY WALLIN <CHRIS WALLIN SUPERFUND A/C>	3,192,494	0.59
20	PHILRENE PTY LTD <PHILRENE SUPERFUND A/C>	3,142,970	0.58

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