2007 Annual Report

ACN 063 886 199

Message to Shareholders

Introduction
On behalf of the Board of Directors of Funtastic Limited we present to you our 2007 Annual Report.

The financial results were very disappointing and the initiatives that we highlighted one year ago did not help us achieve the results that we anticipated at that time. It became clear to your Board last November that our forecast earnings would not be achieved and accordingly we announced a significant downgrade in our expectations. Your Board also considered it necessary to immediately undertake a strategic review of all the group's operations. This task has now been completed and the objective of your Board and management in 2008 is to execute this strategy. The key elements of our strategy are outlined below.

The Year in Review
Sales for the year were $394.3 million, an 8.7% increase on the 2006 result but the group reported a net profit after tax of $5.2 million compared to the prior year of $12.1 million. The underlying net profit after tax, before one-off charges and amortisation, was $13.0 million in 2007 and $16.0 million in 2006.

The factors contributing to this less than satisfactory performance were:

- Poor disciplines in toy stock management, optimistic forecasting and poor purchasing decisions exacerbated the inventory situation;
- The toy division was the principal contributor to the decline in performance, with revenue of approximately $130 million delivering negligible Earnings before interest, tax and amortisation (EBITA);
- The impact of increased provisioning and the margin erosion associated with the clearance of approximately $20 million in excess inventory. The EBITA impact, attributable to the sell off of this stock was estimated to be $12 million;
- The loss of Radica and Safety 1st distribution rights as well as declining volumes in some toy brands;
- All other group operations collectively performed in line with forecasts. However, certain businesses are not generating acceptable returns on capital employed and have not exhibited appropriate earnings growth over the past 3 years; and
- The impact of cost saving initiatives was negated by the decline in margin.

The pivotal December quarter sales were adversely affected by stock clearance activity at lower margins, which limited our ability to achieve more profitable sales of good line, full margin merchandise.

The company experienced a solid performance from its recent acquisition of the Judius Group with revenue of $37.3 million which contributed $8.5 million in EBITA. We commenced shipping product in the USA in late December 2007 and whilst the roll out has been slower than originally expected we are working with A.B.C Learning Centres Limited to accelerate the take up rate in accordance with our long term exclusive agreement.

In light of our results, the company will not pay a final dividend.

Outlook for 2008

The first element of our strategic plan will be returning the key toy division to profitability through a comprehensive turnaround of this business unit. We believe our success in this area will firstly be through the leveraging of our strong vendor and customer relationships and secondly by strengthening the management within the toy business. The latter point has already been achieved with the recent appointment of Stewart Downs to the position of Group General Manager – Toys & Sporting. Stewart was GM Asia for Mattel (worldwide toy distributor) and more recently was Managing Director of a group of Clemenger Companies "*Creative Sales and Marketing Group"*, specialising in Sales Promotions, Field Marketing, Outsourced Sales Forces and Mystery Shopping. In addition, we are pleased to confirm that 2008 will see us introduce some exciting new brands and licenses into the market which will enable us to command an improved margin. Additionally comprehensive safeguards have been introduced to ensure that the prior years poor stock management disciplines will not be repeated.

The second key element to the strategic review is the initiation of a debt reduction plan, which will be achieved through a combination of: divesting under-performing or non core assets; inventory reduction; and focusing on cost reduction initiatives and margin improvements. Equally this strategic element is also well progressed with the recent divestment of the publishing division at a profit of approximately $5,500,000 and a contribution to debt reduction of $13,000,000. The divestment was announced to the market on 20 February 2008.

Summary

There is no doubt the last two years have been very challenging for the board, its staff, its customers and above all its shareholders. The board is committed and focused on delivering a strong result in 2008 which in turn will lay the foundations for the long term.

The directors would like to thank the loyalty of our staff in 2007 and we look forward to delivering and reporting on the key areas of focus in 2008. Finally to you our patient shareholders thank you for your support over recent times and we look forward to keeping you informed on the challenges that lie ahead.

David Hendy
Chairman of the Board

Tony Oates
Managing Director

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COMPANY INFORMATION

Directors	David Hendy *Chairman and Non- Executive Director* Tony Oates *Managing Director* Antony Lynch BCom *Independent Non-Executive Director* Graeme Yeomans *Independent Non- Executive Director* David Berry BCom FCA FTIA *Non- Executive Director*
Company Secretary	David Berry
Registered Office	635 Waverley Road Glen Waverley , Vic 3150
Principal Administrative Office	635 Waverley Road Glen Waverley, Vic 3150
Share Registry	Computershare Investor Services Pty Limited Yarra Falls 452 Johnston Street Abbotsford Vic 3067
Auditors	Deloitte 180 Lonsdale Street Melbourne Vic 3000
Bankers	National Australia Bank 535 Bourke Street Melbourne Vic 3000
Solicitors	Freehills 101 Collins Street Melbourne Vic 3000

Corporate Governance Statement

The Corporate Governance principles that guide the operations of Funtastic are detailed in this statement. Funtastic respects and endorses the ASX Corporate Governance Council's Principles and Recommendations. The company has adopted the revised principles and recommendations in advance of the effective date of 1 January 2008.

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:

- establish, monitor and modify Funtastic's corporate strategies;
- ensure best practice corporate governance;
- appoint the Managing Director and approve succession plans;
- monitor the performance of Funtastic's management;
- ensure that appropriate risk management systems, internal control and reporting systems and compliance frameworks are in place and are operating effectively;
- monitor financial results;
- ensure that business is conducted ethically and transparently;
- approve decisions concerning Funtastic's capital, including capital restructures and dividend policy; and
- ensure 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 one executive director, the Managing Director. The role of Chairman and Managing Director are separate. The details of each director's qualifications, experience and skills are set out on page 12 of the Annual Report.

The chairman of the board is a non-executive director and is elected by the board. The chairman is responsible for the management of the affairs of the board and represents the board in periods between board meetings.

Board Membership

The members of the board and details regarding their appointment, removal, term of office, attendance at board meetings and other committee meetings, skills and experience are detailed in the Directors' Report. The board composition is determined using the following principles:

- the board should comprise between 3 and 9 directors;
- the maximum age for directors is 72;
- the board should comprise directors with a broad range of skills and experience;
- the board presently comprises four Non-executive directors and one executive director; 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 is 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.

The majority of the board is not considered to be independent as at the date of this report. Currently, three of the five directors are not independent. It is the board's view that Mr. Antony Lynch and Mr. Graeme Yeomans are independent directors.

The following directors are deemed not to be independent:

- Mr. David Hendy (Non-executive Chairman) the founder of Funtastic; a Non-executive Director until his appointment as Chairman on 11 May 2006; and having been the Managing Director until December 2005;

- Mr. David Berry (Non-executive Director and Company Secretary) due to Company Secretarial services provided to the company; and
- Mr. Tony Oates (Executive Director)

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 instrumental in launching the company and the business, and 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. However, the board believes that David Hendy currently is the most appropriate person to be the company's chairman. It is the Board's view that Mr Hendy's role as non-executive (non-independent) chairman has worked well since his appointment as chairman in 2006 and is considered to be in the shareholders' interests.

Similarly, the board is aware that the Audit, Risk and Compliance Committee is comprised of three non executive directors, two of which are independent. David Berry is deemed not independent. He is the chairman of the committee and whilst he is not independent, he is currently the most suitably qualified person because of his background as a chartered accountant and registered company auditor. The board considers that two independent directors on the committee is 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 managing director 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 Managing Director 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 Managing Director to review key issues and performance trends affecting the business of Funtastic.

Conflict of Interest

In accordance with the *Corporations Act 2001 (Clth)* and Funtastic's Constitution, directors must keep the board advised on an ongoing basis, of any interest that could potentially conflict with those of Funtastic. Where the board believes that a significant conflict exists, the director concerned does not receive the relevant board papers and is not present at the meeting while the item is considered.

Independent Professional Advice

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

Communication and disclosure

The company complies with all relevant disclosure laws and Listing Rules prescribed by the Australian Stock Exchange 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 undertakes an annual self assessment of its collective performance, and its subcommittees. This exercise takes into consideration the collective directors competency, skills, experience and expertise. The last assessment was taken in December 2007. Where necessary Funtastic will provide the required resources to assist directors in improving their performance.

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

Ethical Standards

All directors, officers and employees are expected to perform their duties professionally and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of Funtastic and its brands. The board oversees the identification, 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 in periods other than in three trading windows per annum. The trading windows are for six weeks and commence following 48 hours after the public release of the half year, full year financial results and the update provided to Shareholders at the Annual General Meeting. 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 (Clth)* and the Listing Rules of the Australian Stock Exchange (ASX), directors or their related entities advise the ASX of any transaction conducted by them in buying or selling any shares in Funtastic.

Ethical Compliance

Funtastic uses its best endeavours through contract negotiations, to ensuring 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 David Hendy (Chairman), Antony Lynch, David Berry, Tony Oates and Graeme Yeomans

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.

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 David Berry (Chairman), Antony Lynch and Graeme Yeomans

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 forming a policy on the provision of non-audit services and 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 report contains matters regarding its role and responsibilities and includes:

- the system of internal control, which management has established, effectively safeguards 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 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 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 all areas of potential risk;
- adequate policies and procedures have been designed and implemented to manage identified risks;
- a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
- appropriate remedial action is undertaken to redress areas of weakness.

The following are intended to form part of the normal procedures for the Committee's risk responsibility:

- determine the adequacy and effectiveness of the management reporting and systems used to monitor adherence to policies and guidelines and limits approved by the board for management of financial risks;
- determine the adequacy and effectiveness of financial and operational risk management systems by reviewing risk registers and reports from management and external auditors;
- evaluating the structure and adequacy of business continuity plans;
- determine the appropriateness of insurances on an annual basis;
- reviewing and making recommendations on the strategic direction, objectives and effectiveness of financial and operational risk management policies;
- overseeing the establishment and maintenance of processes to ensure that there is:
  - an adequate system of internal control, management of business risks and safeguard of assets; and
  - a review of internal control systems and the operational effectiveness of the policies and procedures related to risk and control.
- evaluating exposure to fraud and monitoring investigations of allegations of fraud or malfeasance;
- reviewing corporate governance practices for completeness and accuracy;
- determining the adequacy and effectiveness of legal compliance systems; and
- providing recommendations as to the reporting of and propriety of related party transactions.

Management Certification Process

A management certification process has been introduced across the business. The process serves the following purposes:

- provide assurance to the board to support their approval of the annual financial reports;
- formalise the process by which the executive team sign-off on those areas of risk responsibility delegated to them by the board; and

- ensure a true and fair view of Funtastic's financial statements.

The key steps in the certification process are as follows:

- completion of a questionnaire by key management covering information that is critical to the financial statements, risk management and internal controls; and
- review by the Audit, Risk and Compliance Committee of all exceptions and management comments.

Certification by the Managing Director 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

There is not a dedicated internal audit function; however, independent contractor appointments are made to conduct internal control reviews and assessments as and when deemed appropriate by the Audit, Risk and Compliance Committee. The board receives and reviews 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 Antony Lynch (Chairman), David Hendy and Graeme Yeomans.

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 Managing Director;
- the remuneration, superannuation, and incentive policies for Senior Executives who report directly to the Managing Director; and
- all equity and cash-based remuneration plans.

The Remuneration and Evaluation Committee provides additional support for the human resources strategy of Funtastic. It assists the board by ensuring that the appropriate people, people related strategies, policies and procedures are in place to support Funtastic's vision and values, and its strategic and financial goals.

Remuneration 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 Managing Director, 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 (Clth)* and the ASX Listing Rules;
- the proposed specific remuneration and other benefits for the direct reports of the Managing Director 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 Managing Director 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 Managing Director 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

Your Directors present their report on the consolidated entity consisting of Funtastic Limited and the entities it controlled at the end of, or during, the year ended 31 December 2007.

Directors

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

Director	Particulars
David Hendy Non-executive Chairman	Joined the Board in 1995. Mr Hendy is Chairman of the Nomination Committee and a member of the Remuneration and Evaluation Committee
Tony Oates Managing Director	Appointed to the Board in September 2004 and is also a member of the Nomination Committee
David Berry Non-executive director and Company Secretary	Chartered Accountant who joined the Board in May 2000 as a Non-executive director. Mr Berry is Chairman of the Audit, Risk and Compliance Committee, a member of the Nomination committee and is also the Company Secretary.
Antony Lynch Independent Non-executive director	Appointed to the Board in May 2006 as an Independent Non-executive director. Mr Lynch is Chairman of the Remuneration and Evaluation Committees, member of the Audit, Risk and Compliance Committee and of the Nomination Committee.
Graeme Yeomans Independent Non-executive director	Joined to the Board in September 2007 as an Independent Non-executive director. Mr Yeomans is a member of the Remuneration and Evaluation Committees, member of the Audit, Risk and Compliance Committee and of the Nomination Committee.
Harry Boon Non-executive director	Joined the Board in September 2004 as a Non-executive Director and was Chairman of the Remuneration and Evaluation Committee (up to 28 June 2006) and a member of Audit, Risk and Compliance Committee and Nomination Committee until his retirement on 28 February 2007.
Moshe Meydan Non-executive director	Joined the board in September 2003 and resigned as a Non-executive director on 25 June 2007. Mr Meydan was a member of the Nomination committee until his retirement.

The above named directors held office during and since the end of the financial year except for:

- Mr H Boon – retired 28 February 2007;
- Mr M Meydan – retired 25 June 2007; and
- Mr G Yeomans – appointed 26 September 2007

Directorships of other listed companies

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

Director	Company	Period
David Hendy	Danks Holdings Limited	Since 2007
	Repco Limited	2006 to 2007
Tony Oates	None	
David Berry	None	
Antony Lynch	Clime Investment Management Limited (formerly Loftus Capital Partners Limited); and	1995 to 2006
	Webster Limited	2004 to 2005
Graeme Yeomans [1]	Stericorp Limited	Since 2005
	Repco Limited	2006 to 2007

(1) Mr G Yeomans was appointed on the 26 September 2007

Company Secretary

Mr David Berry, BCom FCA FTIA, Non-executive director holds the position of Company Secretary.

Principal activities

The company's principal continuing activity during the year was a wholesaler and distributor operating predominantly and materially in Australia.

Review of operations

- Revenue totalled $394,330,000 and represents a 8.7% increase on last year's revenue of $362,651,000;
- Earnings before interest, tax and amortisation (EBITA) before one-off charges was $28,098,000, a 5.8% decrease on last year's EBITA of $29,842,000;
- Earnings before interest, tax and amortisation (EBITA) after one-off charges was $22,071,000, a 22.5% decrease on last year's EBITA of $28,495,000;
- Net profit after tax before amortisation (NPATA) was $8,796,000, which represents a 41.6% decrease in NPATA on the previous corresponding period;
- Net profit after tax before amortisation and before one-off charges was $13,015,000, which represents a 18.6% decrease on the previous corresponding period; and
- Net profit for the period (NPAT) totalled $5,153,000, a 57.3% decrease on the previous corresponding period.

The 2007 result including the one off charges is summarized as follows:

	2007	2006	**Variance**	
	$'000	$'000	**$'000**	**%**
Revenue	**394,330**	362,651	31,679	8.7
EBITA before one-off charges	**28,098**	29,842	(1,744)	(5.8)
One-off charges	**(6,027)**	(1,347)	(4,680)	
EBITA after one-off charges	**22,071**	28,495	(6,424)	(22.5)
NPATA (Before Amortisation)	**8,796**	15,055	(6,259)	(41.6)
Amortisation (after tax)	**(3,643)**	(2,987)	(656)	22.0
NPAT	**5,153**	12,068	(6,915)	(57.3)

As a result of the recent strategic review and taking into account the recent trading performance of the group, the second half result has seen a one-off $6,027,000 provision for slow moving inventory. The comparative for 2006 comprises one-off restructuring costs of $1,347,000.

Funtastic's fully diluted earnings per share decreased by 66% to 3.2 cents per share from the previous corresponding period. Before amortisation, fully diluted earnings per share decreased 54% to 5.4 cents per share from the previous corresponding period.

Net cash inflow from operating activities totalled $20,883,000, a significant improvement, compared to the previous corresponding period's net cash outflow of $2,110,000 due principally to inventory reductions and lower tax payments. Net bank debt has decreased to $85,053,000 at 31 December 2007 from $88,201,000 at 31 December 2006 due to the reduction in inventory levels. Reduction in debt and inventory remains a core focus in 2008.

The Toys and Sporting goods business has had the greatest impact on the trading performance of the group and in fact the majority of the above mentioned provision for slow moving stock was related to this category. The FY2007 result was impacted by poor margins in our core toy businesses as we endeavored to clear the build up of inventory. This clearance activity also impacted on our ability to achieve more profitable sales in the pivotal December quarter as sales of clearance merchandise, at lower margins, substituted sales of good line, full margin merchandise.

The company experienced a solid performance from its recent acquisition of the Judius Group with revenue of $37,358,000 which contributed $8,490,000 in EBITA. We commenced shipping product in the USA in late December

2007 and whilst the roll out has been slower than expected we are working with A.B.C Learning Centres Limited to accelerate the take up rate in accordance with our long term exclusive agreement.

Since the end of the year the directors have recommended not to declare the payment of a final dividend.

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 and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Significant Changes in the State of Affairs

There was no significant change in the state of affairs of the consolidated entity, during the period.

Matters subsequent to the end of the financial year

On the 20 February 2008 Funtastic Limited announced the sale of its Publishing business unit to Parragon Publishing Limited, based in the United Kingdom.

The sale price has been struck at a premium to net assets with a profit on sale of approximately $5.5 million. The sale is expected to realise approximately $13 million in cash proceeds. These proceeds will be used to retire debt.

There are no other matters or circumstances that have arisen since 31 December 2007 that have significantly affected or may significantly affect:

(a) the company's operations in future financial years;
(b) the results of those operations in future financial years; or
(c) the company's state of affairs in future financial years

Future developments

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

Environmental regulations

The group is not involved in any activities that have a marked influence on the environment within its area of operation. As such, the Directors are not aware of any material issues affecting the group or it's compliance with the relevant environmental agencies or regulatory authorities.

Dividends

(a) In respect of the year ended 31 December 2006, a final dividend of $6,479,000 representing 4.0 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 16 October 2006.

(b) In respect of the year ended 31 December 2007, an interim dividend of $6,544,000 representing 4.0 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 19 October 2007

(c) The directors recommend not to pay a final dividend for the financial year ended 31 December 2007.

Share Options

Share options and Performance Share Rights granted to directors and executives

During and since the end of the financial year an aggregate of 590,000 share options and 145,000 Performance Share Rights over unissued ordinary shares of Funtastic Limited were granted to the following directors and executives of the company as part of their compensation:

(a) Share Options

Directors and executives	Number of Options Granted	Issuing entity	Number of ordinary shares under option
Tony Oates	250,000	Funtastic Limited	250,000
Colin Caulfield (1)	170,000	Funtastic Limited	170,000
Karl Nixon	170,000	Funtastic Limited	170,000
Total	**590,000**		**590,000**

(1) Mr C Caulfield - resigned effective 14 December 2007

(b) Performance Share Rights

Executives	PSRs Granted	Issuing entity	Number of ordinary shares under option
Paul Cannon	30,000	Funtastic Limited	30,000
Jeff Hunter (1)	25,000	Funtastic Limited	25,000
Ed Medica	30,000	Funtastic Limited	30,000
Mark Scott (2)	30,000	Funtastic Limited	30,000
Robert Vasy (3)	30,000	Funtastic Limited	30,000
Total	**145,000**		**145,000**

(1) Mr J Hunter - appointed 26 March 2007
(2) Mr M Scott - transferred on sale of Publishing on 19 February 2008
(3) Mr R Vasy - resigned effective 14 January 2008

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 of options
Funtastic Limited	7,500	Ordinary	$1.10	02/04/2008
Funtastic Limited	105,000	Ordinary	$1.52	01/08/2008
Funtastic Limited	577,143	Ordinary	$1.64	02/09/2011
Funtastic Limited	170,000	Ordinary	$1.82	02/09/2012
Funtastic Limited	250,000	Ordinary	$1.86	31/03/2011
Funtastic Limited	100,000	Ordinary	$1.88	02/04/2011
Funtastic Limited	56,250	Ordinary	$1.89	17/09/2008
Funtastic Limited	50,000	Ordinary	$2.12	05/01/2009
Funtastic Limited	50,000	Ordinary	$2.18	29/12/2008
Funtastic Limited	50,000	Ordinary	$2.39	09/08/2009
Total ESOP Options	**1,415,893**			

(b) Ordinary Options

Issuing entity	Number of ordinary shares under option	Class of shares	Exercise Price of ordinary options	Expiry Date of ordinary options
Funtastic Limited	1,500,000	Ordinary	$1.50	19/01/2014
Total Ordinary Options	**1,500,000**			

(c) Employee Performance Share Rights (EPSRs)

Issuing entity	Number of ordinary shares under EPSR	Class of shares	Exercise Price of EPSRs	Expiry Date of EPSRs
Funtastic Limited	177,500	Ordinary	Nil	02/09/2009
Funtastic Limited	327,500	Ordinary	Nil	02/09/2010
Total EPSRs	**505,000**			

Issued on the Exercise of Options

Details of ordinary shares issued by Funtastic Limited during or since the end of the financial year as a result of exercise of an option are:

Issuing entity	Number of shares issued	Class of shares	Amount paid for shares	Amount unpaid on shares
Funtastic Limited	655,000	Ordinary	$578,496	Nil
Funtastic Limited	32,500	Ordinary	$32,500	Nil
Total	**687,500**			

No EPSRs were exercised during the year

Indemnity of officers and auditors

During the financial year the company paid a premium in respect of a contract insuring the directors of the 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 (Clth).* The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred by such an officer or auditor.

Meetings of Directors

The numbers of meetings of the company's directors held during the year ended 31 December 2007, and the number of meetings attended by each director were:

Number of Meetings Held	Board of directors		Audit, Risk and Compliance Committee		Remuneration and Evaluation Committee		Nomination Committee	
	A	B	A	B	A	B	A	B
D Hendy	17	17	-	-	4	4	1	1
D Berry	17	17	3	3	-	-	1	1
H Boon (1)	2	3	1	1	2	2	-	-
A Lynch	17	17	3	3	4	4	1	1
M Meydan (2)	7	8	-	-	-	-	-	-
T Oates	16	17	-	-	-	-	1	1
G Yeomans (3)	5	5	1	1	-	-	-	-

In addition, the Non-executive directors attended 3 Strategic Review Committee meetings.

(1) Mr H Boon - retired 28 February 2007
(2) Mr M Meydan - retired 25 June 2007
(3) Mr G Yeomans - appointed 26 September 2007

Column A indicates the number of meetings attended during the period the Director was a member of the Board and / or Committee.

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

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	Share Options
David Hendy	2,599,650	-
David Berry	154,076	-
Tony Oates	818,938	500,000
Harry Boon	20,000	-
Antony Lynch	13,267	-
Graeme Yeomans	250,000	-

Remuneration Report

Details of key management personnel

The following persons acted as directors of the company during or since the end of the financial year:

David Hendy – Chairman and Non-executive director

David Berry – Non-executive director and Company Secretary

Harry Boon –Independent non-executive director - retired 28 February 2007

Moshe Meydan –Non-executive director - retired 25 June 2007

Tony Oates – Managing Director

Antony Lynch – Independent Non-executive director

Graeme Yeomans – Independent Non-executive director – appointed 26 September 2007

The highest remunerated group and company executives for the 2007 financial year were:

Paul Cannon – General Manager Softgoods

Colin Caulfield – Chief Operations Officer – resigned effective 14 December 2007

Jeff Hunter – President Judius Worldwide – appointed 26 March 2007

Ed Medica – General Manager General Merchandise – granted additional responsibility in respect of the nursery and confectionery divisions effective 1 January 2007

Karl Nixon – Chief Financial Officer

Remuneration policy for directors and executives

Policy

To link management rewards to the creation of value for shareholders.

Principles of Compensation

The Remuneration and Evaluation Committee makes specific recommendations to the board on compensation packages and other terms of employment for executive directors and other senior executives. The board then considers these recommendations, and makes appropriate determinations, with compensation packages set at a level that is intended to attract and retain executives capable of managing the consolidated entity's diverse operations.

Compensation of the senior executives is reviewed on an annual basis by the Remuneration and Evaluation Committee having regard to personal and corporate performance and relevant comparative information. Compensation for senior executives comprises both fixed compensation and an "at risk" component. The "at risk" component comprises a short term incentive payment based on a combination of the company's results and individual performance levels, and a long term incentive component pursuant to the Funtastic Executive Share Option Plan and the Funtastic Employee Performance Share Rights Plan.

The payment of short-term incentives is dependent on the achievement of operating and financial targets set at the beginning of each year and assessed on an annual basis by the board.

Compensation and other terms of employment for senior executives are formalised in service agreements.

Compensation and company performance

Funtastic Limited's Net Profit after Tax (NPAT) and Diluted Earnings per Share (EPS) growth since 2001 have been the central performance measures for the company's incentive plans for executives since listing. Other measures include revenue growth, return on average funds employed, net operating cash flow, total shareholder return and other business objectives.

As the company's performance has deteriorated there has not been any short-term incentive payments made to executives of the group in the financial years 2006 and 2007. The long term financial incentive performance hurdle rates have not been achieved either in the financial years 2006 and 2007.

Remuneration Report (continued)

Components of Compensation

Fixed Compensation

The terms of employment for all executive management contain a fixed compensation component, which is expressed in local currency. This fixed component is set in accordance with the market rate for a comparable role by reference to appropriate external benchmark information and having regard to an individual's responsibilities, performance, qualifications, experience and location. An executives' compensation is also reviewed on promotion.

Fixed compensation includes contributions to superannuation and pension plans in accordance with relevant legislation or as contractually required. Fixed compensation is structured as a total employment cost package which may be delivered to the executive as a mix of cash and prescribed non-financial benefits at the executive's discretion. There are no guaranteed pay increases in any senior executive's contract.

Benefits for termination of employment may be payable subject to the circumstances of the termination and within the terms of the employment contract.

At risk Compensation

Annual Bonus

The annual cash bonus represents the actual entitlements payable under Funtastic's annual short-term incentive program (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. In relation to members of the senior executive team, this generally comprises an amount of between 25% and 50% (Managing Director 50%) of their fixed annual compensation for achieving a range of target performance criteria.

In general, the performance measures for 2006 and 2007 were based on targeted sales growth, Net profit after tax (NPAT), inventory levels, Return on Average Funds Employed, product category earnings, net operating cash flow and other business objectives with proportions applicable to each component and entitlement determined according to the respective executive's level and area of responsibility.

Performance against these objectives was determined and incentives and entitlements assessed only following the completion of the audit of the financial accounts.

Specific information relating to the percentage of the STI payable and the percentage of the awards at target level that was not achieved for the Managing Director and executives of the group are set out in the table below.

Directors and executives	Cash Bonus $	Maximum Available Bonus $	Paid %	Forfeited %
Tony Oates	-	240,000	-	100%
Paul Cannon	-	82,500	-	100%
Colin Caulfield (1)	-	116,540	-	100%
Jeff Hunter (2)	-	160,000	-	100%
Ed Medica	-	67,800	-	100%
Karl Nixon	-	108,000	-	100%
Mark Scott (3)	-	88,550	-	100%
Robert Vasy (4)	-	106,000	-	100%

(1) Mr C Caulfield - resigned effective 14 December 2007
(2) Mr J Hunter - appointed 26 March 2007
(3) Mr M Scott - transferred on sale of the Publishing business effective 19 February 2008
(4) Mr R Vasy - resigned effective 14 January 2008

Key management personnel compensation

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

	Short-term employee benefits				Post-employment benefits				Share-based payments		
2007	**Salary and fees $**	**Cash Bonus $**	**Non-monetary benefits $**	**Other $**	**Super-annuation $**	**Other $**	**Other long-term employee benefits $**	**Termination benefits $**	**Options / PSRs (11) $**	**Total $**	**Consisting of options / PSRs %**
Directors											
David Hendy	137,614	-	-	-	12,386	-	-	-	-	150,000	-
David Berry	80,320	-	-	-	4,679	-	-	-	-	84,999	-
Harry Boon (1)	18,462	-	-	-	-	-	-	-	-	18,462	-
Moshe Meydan (2)	41,250	-	-	-	-	-	-	-	-	41,250	-
Tony Oates	405,047	-	35,320	-	41,157	-	-	-	(1,982)	479,542	(0.41)
Antony Lynch (3)	80,275	-	-	-	7,225	-	-	-	-	87,500	-
Graeme Yeomans (4)	18,349	-	-	-	1,651	-	-	-	-	20,000	-
	781,317	**-**	**35,320**	**-**	**67,098**	**-**	**-**	**-**	**(1,982)**	**881,753**	
Executives											
Paul Cannon (5)	219,925	-	32,369	-	22,706	-	-	-	8,805	283,805	3.10
Colin Caulfield (6)	246,674	-	12,256	-	23,304	-	-	-	(37,803)	244,431	(15.47)
Jeff Hunter (7)	235,152	-	8,315	-	5,860	-	-	-	3,631	252,958	1.12
Ed Medica (8)	207,339	-	34,000	-	18,661	-	-	-	8,136	268,136	3.03
Karl Nixon	230,872	-	16,834	-	22,294	-	-	-	(10,030)	259,970	(3.86)
Mark Scott (9)	228,052	-	-	-	20,525	-	-	-	(4,709)	243,868	(1.93)
Robert Vasy (10)	155,303	-	87,816	-	21,881	-	-	-	(12,918)	252,082	(5.12)
	1,523,317	**-**	**191,590**	**-**	**135,231**	**-**	**-**	**-**	**(44,888)**	**1,805,250**	
	2,304,634	**-**	**226,910**	**-**	**202,329**	**-**	**-**	**-**	**(46,870)**	**2,687,003**	

(1) Mr H Boon – retired 28 February 2007
(2) Mr M Meydan – retired 25 June 2007
(3) Mr A Lynch - appointed on 25 May 2006
(4) Mr G Yeomans - appointed on 26 September 2007
(5) Mr C Cannon - appointed on the 15 June 2006
(6) Mr C Caulfield - resigned effective 14 December 2007
(7) Mr J Hunter - appointed 26 March 2007
(8) Mr E Medica - granted additional responsibility in respect of the nursery and confectionery divisions effective 1 January 2007
(9) Mr M Scott - transferred on sale of the Publishing business effective 19 February 2008
(10) Mr R Vasy - resigned effective 14 January 2008
(11) The amount disclosed for options and other share based payments includes the financial effect of options that lapsed due to the non-achievement of internal performance hurdles.

For information on share options and performance share rights granted to key management personnel refer to the tables on pages 22 and 23

2006	Short-term employee benefits: Salary and fees $	Short-term employee benefits: Cash Bonus $	Short-term employee benefits: Non-monetary benefits $	Short-term employee benefits: Other $	Post-employment benefits: Super-annuation $	Post-employment benefits: Other $	Other long-term employee benefits $	Termination benefits $	Share-based payments: Options / PSRs [(1)] $	Total $	Consisting of options / PSRs %
Directors											
Geoff Tomlinson	59,280	-	-	-	5,335	-	-	-	-	64,615	-
David Hendy	247,553	-	-	-	10,959	-	-	-	-	258,512	-
David Berry	82,916	-	-	-	-	-	-	-	-	82,916	-
Moshe Meydan	188,846	-	-	-	78,825	-	-	53,879	(18,381)	303,169	(6.1%)
Tony Oates	356,010	-	74,336	-	44,491	-	-	-	(7,856)	466,981	(1.7%)
Antony Lynch	47,548	-	-	-	4,279	-	-	-	-	51,827	-
Harry Boon	75,731	-	-	-	75,731	-	-	-	-	75,731	-
	1,057,884	**-**	**74,336**	**-**	**219,620**	**-**	**-**	**53,879**	**(26,237)**	**1,379,482**	
Executives											
Ian Ashmore	176,500	-	-	-	15,885	-	-	41,917	(5,166)	229,136	(2.2%)
Paul Cannon	117,451	-	17,429	-	12,139	-	-	-	6,241	153,260	4.1%
Colin Caulfield	257,072	-	10,221	-	28,232	-	-	-	(27,917)	267,608	(10.4%)
Karl Nixon	221,275	-	16,834	-	25,502	-	-	-	33,921	297,532	11.4%
John Redenbach	194,958	-	55,007	-	22,497	-	-	20,545	(6,353)	286,654	(2.2%)
Mark Scott	176,112	-	-	-	15,850	-	-	-	9,067	201,029	4.5%
Robert Vasy	129,951	-	110,769	-	24,815	-	-	-	9,472	275,007	3.4%
	1,273,319	**-**	**210,260**	**-**	**144,920**	**-**	**-**	**62,462**	**19,265**	**1,710,226**	
	2,331,203	**-**	**284,596**	**-**	**364,540**	**-**	**-**	**116,341**	**(6,972)**	**3,089,708**	

(1) The amount disclosed for options and other share based payments includes the financial effect of options that lapsed due to the non-achievement of internal performance hurdles.

For information on share options and performance share rights granted to key management personnel refer to the tables on pages 22 and 23

Remuneration Report (continued)

Share Options / Share Performance Right Plans

Share Options / Share Performance Rights granted

The company's long-term incentive arrangements are designed to link executives compensation with growth in shareholder value through the grant of options or rights over equity securities (shares) in the company. Options or Performance Share Rights 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 or 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 (Managing Director 40% of annual fixed compensation) on an annualised basis.

Options and / or rights are granted under the plan 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.

Options over un-issued ordinary shares of Funtastic Limited granted during the financial year to key management personnel were as follows:

Share Option	Grant date	Option number	Options granted	Expiry date	Exercise Price Per Option	Fair Value per option at grant date	Performance conditions
2007							
Directors							
Tony Oates	17/05/2007	30	250,000	02/09/2011	$1.6400	$0.3000	2
Executives							
Colin Caulfield [(1)]	29/06/2007	32	170,000	02/09/2012	$1.8200	$0.3800	2
Karl Nixon	29/06/2007	32	170,000	02/09/2012	$1.8200	$0.3800	2

(1) Mr C Caulfield - resigned effective 14 December 2007

Share Option	Grant date	Option number	Options granted	Expiry date	Exercise Price Per Option	Fair Value per option at grant date	Performance conditions
2006							
Directors							
Tony Oates	11/05/2006	25	250,000	31/03/2011	$1.8645	$0.2206	1
Executives							
Paul Cannon	15/08/2006	27	157,144	02/09/2011	$1.6400	$0.2966	2
Colin Caulfield	15/08/2006	27	170,000	02/09/2011	$1.6400	$0.2966	2
Karl Nixon	15/08/2006	27	170,000	02/09/2011	$1.6400	$0.2966	2
Mark Scott	27/02/2006	24	100,000	02/04/2011	$1.8800	$0.3337	1

Remuneration Report (continued)

Performance Share Rights granted during or since the financial year to key management personnel were as follows:

Performance Share Rights	Grant date	EPSR number	EPSR granted	Expiry date	Exercise Price Per EPSR	Fair Value per EPSR at grant date	Performance conditions
Executives							
2007							
Paul Cannon	29/06/2007	31	30,000	2/09/2010	Nil	$1.8200	2
Jeff Hunter (1)	29/06/2007	31	25,000	2/09/2010	Nil	$1.8200	2
Ed Medica	29/06/2007	31	30,000	2/09/2010	Nil	$1.8200	2
Mark Scott (2)	29/06/2007	31	30,000	2/09/2010	Nil	$1.8200	2
Robert Vasy (3)	29/06/2007	31	30,000	2/09/2010	Nil	$1.8200	2
2006							
Ian Ashmore	15/08/2006	26	25,000	02/09/2009	Nil	$1.6400	2
John Redenbach	15/08/2006	26	25,000	02/09/2009	Nil	$1.6400	2
Robert Vasy	15/08/2006	26	30,000	02/09/2009	Nil	$1.6400	2

(1) Mr J Hunter appointed 26 March 2007
(2) Mr M Scott transferred on sale of Publishing effective 19 February 2008
(3) Mr R Vasy resigned effective 14 January 2008

Performance condition 1

(a) 50% exercisable if the average diluted EPS reaches or exceeds 13% growth p.a over a three year period commencing five years prior to the expiry date;
(b) and remaining options will vest pro rata so that all options will be vested when the average diluted EPS reaches or exceeds 17% growth p.a over the same three year period; and
(c) executive remaining in employment at the date of vesting.

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Performance condition 2

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

(a) for 50% to vest the average annual diluted earnings per share (EPS) growth rate over a three year period, is required to be 11%p.a;
(b) for the remaining 50% to vest the average annual diluted EPS growth rate over a three year period, is required to be 15%p.a;
(c) if the average annual growth in diluted EPS growth over the three year period, 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.

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(o)

Value of options and / or performance share rights issued to directors and executives

	Options / EPSRs Granted Value at grant date $	Options / EPSRs Exercised Value at exercise date $	Options / EPSRs Lapsed Value at time of lapse $	Total value of options granted, exercised and lapsed $	Value of options and / or EPSRs included in remuneration for the year $	Percentage of total remuneration for the year that consists of options / EPSRs %
Tony Oates	75,000	27,355	-	102,335	(1,982)	(0.41)
Paul Cannon	54,600	-	-	54,600	8,805	3.10
Colin Caulfield (1)	64,600	-	173,581	238,181	(37,803)	(15.47)
Jeff Hunter (2)	45,500	-	-	45,500	3,631	1.12
Ed Medica	54,600	-	-	54,600	8,136	3.03
Karl Nixon	64,600	-	48,093	112,693	(10,030)	(3.86)
Mark Scott (3)	54,600	-	-	54,600	(4,709)	(1.93)
Robert Vasy (4)	54,600	-	41,123	95,723	(12,918)	(5.12)

(1) Mr C Caulfield - resigned effective 14 December 2007
(2) Mr J Hunter -appointed 26 March 2007
(3) Mr M Scott - transferred on sale of Publishing business effective 19 February 2008
(4) Mr R Vasy - resigned effective 14 January 2008

The model inputs for options and EPSR's granted during the year ended 31 December 2007 include:

Option / EPSR Number	30	31	32
	Option	EPSR	Option
Issue Date	17/05/2007	29/06/2007	29/06/2007
Vesting Date	31/03/2009 & 31/08/2009	02/04/2010 & 31/08/2010	02/04/2010 & 31/08/2010
Expiry Date	02/09/2011	02/09/2010	02/09/2012
Exercise price	$1.64	$0.00	$1.82
Stock Price at Issue	$1.64	$1.82	$1.82
Expected Life (years)	3.08	3.18	3.97
Volatility	30%	30%	30%
Risk free rate	5.78%	5.78%	5.78%
Dividend yield	6.00%	6.00%	6.00%
Vesting period (years)	2.08	2.97	2.97
Value	$0.30	$1.82	$0.38

Remuneration Report (continued)

Shares provided on exercise of remuneration options

Details of ordinary shares in the company, issued during the year, as a result of the exercise of remuneration options to each director of Funtastic Limited and each of the key management personnel of the consolidated entity are set out below.

Directors and executives	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year	Amount paid per share
2007			
Tony Oates	01/10/2007	150,000	$0.88

Directors and executives	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year	Amount paid per share
2006			
David Hendy	29/06/2006	250,000	$0.92
Ian Ashmore	06/05/2006	50,000	$1.10
Colin Caulfield	26/09/2006	150,000	$1.10

No amounts are unpaid or outstanding on any shares issued on the exercise of options.

No EPSR’s were exercised during the current year.

Remuneration Report (continued)

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.

2007	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year i.e. lapsed	Balance at the end of the year	Vested and exercisable at the end of the year
Non-Executive Directors						
David Hendy	-	-	-	-	-	-
Harry Boon (1)	-	-	-	-	-	-
Moshe Meydan (2)	-	-	-	-	-	-
David Berry	-	-	-	-	-	-
Anthony Lynch	-	-	-	-	-	-
Graeme Yeomans (3)	-	-	-	-	-	-
Executive Directors						
Tony Oates	400,000	250,000	(150,000)	-	500,000	-
Executives						
Paul Cannon	157,143	-	-	-	157,143	-
Colin Caulfield (4)	312,373	170,000	-	(482,373)	-	-
Jeff Hunter (5)	-	-	-	-	-	-
Ed Medica(6)	-	-	-	-	-	-
Karl Nixon	336,949	170,000	-	(116,949)	390,000	50,000
Mark Scott(7)	100,000	-	-	-	100,000	-
Robert Vasy (8)	175,000	-	-	(100,000)	75,000	75,000

(1) Mr H Boon - retired 28 February 2007
(2) Mr M Meydan - resigned on 25 June 2007
(3) Mr G Yeomans - appointed on 26 September 2007
(4) Mr C Caulfield - resigned effective 14 December 2007
(5) Mr J Hunter -appointed 26 March 2007
(6) Mr E Medica – granted additional responsibility in respect of the nursery and confectionery divisions effective 1 January 2007
(7) Mr M Scott - transferred on sale of Publishing business effective 19 February 2008
(8) Mr R Vasy - resigned effective 14 January 2008

Remuneration Report (continued)

2006	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year i.e. lapsed	Balance at the end of the year	Vested and exercisable at the end of the year
Directors						
David Hendy	250,000	-	(250,000)	-	-	-
Moshe Meydan	182,000	-	-	(182,000)	-	-
Tony Oates	349,000	250,000	-	(199,000)	400,000	150,000
Executives						
Ian Ashmore	231,000	-	(50,000)	(181,000)	-	-
Paul Cannon	-	157,143	-	-	157,143	-
Colin Caulfield	434,373	170,000	(150,000)	(142,000)	312,373	-
Karl Nixon	166,949	170,000	-	-	336,949	-
John Redenbach	100,000	-	-	(100,000)	-	-
Mark Scott	-	100,000	-	-	100,000	-
Robert Vasy	265,000	-	-	(90,000)	175,000	75,000

Performance Share Right holdings

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

2007	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year i.e. lapsed	Balance at the end of the year	Vested and exercisable at the end of the year
Executives						
Paul Cannon	-	30,000	-	-	30,000	-
Jeff Hunter(1)	-	25,000	-	-	25,000	-
Ed Medica	25,000	30,000	-	-	55,000	-
Robert Vasy (2)	30,000	30,000	-	-	60,000	-
Mark Scott(3)	-	30,000	-	-	30,000	-

(1) Mr J Hunter - appointed 26 March 2007
(2) Mr R Vasy - resigned effective 14 January 2008
(3) Mr M Scott - transferred on sale of Publishing business effective 19 February 2008

2006	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year i.e. lapsed	Balance at the end of the year	Vested and exercisable at the end of the year
Executives						
Ian Ashmore	-	25,000	-	(25,000)	-	-
John Redenbach	-	25,000	-	(25,000)	-	-
Robert Vasy	-	30,000	-	-	30,000	-

Remuneration Report (continued)

Share holdings

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

2007	Balance at the start of the year	Received during the year on the exercise of options	Shares purchased during the year	Shares sold during the year	Balance at the end of the year or date of retirement / resignation
Directors					
David Hendy	4,599,650	-	-	(2,000,000)	2,599,650
David Berry	183,314	-	4,191 [5]	(33,429)	154,076
Harry Boon [1]	20,000	-	-	-	20,000
Antony Lynch	13,267	-	-	-	13,267
Moshe Meydan [2]	7,946,479	-	-	(1,500,000)	6,446,479
Tony Oates	608,938	150,000	60,000	-	818,938
Graeme Yeomans [3]	-	-	250,000	-	250,000
Executives					
Colin Caulfield [4]	412,680	-	-	(349,016)	63,664
Karl Nixon	50,000	-	-	-	50,000

(1) Mr H Boon - retired on the 28 February 2007
(2) Mr M Meydan - retired effective 25 June 2007
(3) Mr G Yeomans - appointed on the 26 September 2007
(4) Mr C Caulfield - resigned effective 14 December 2007
(5) Shares received upon Dividend reinvestment plan

2006	Balance at the start of the year	Received during the year on the exercise of options	Shares purchased during the year	Shares sold during the year	Balance at the end of the year or date of retirement / resignation
Directors					
Geoff Tomlinson	1,092,220	-	-	-	1,092,220
David Hendy	5,789,650	250,000	-	(1,440,000)	4,599,650
David Berry	180,047	-	3,267	-	183,314
Harry Boon	20,000	-	-	-	20,000
Antony Lynch	-	-	13,267	-	13,267
Moshe Meydan	7,946,479	-	-	-	7,946,479
Tony Oates	545,871	-	63,067	-	608,938
Executives					
Ian Ashmore	-	50,000	-	(50,000)	-
Colin Caulfield	262,680	150,000	-	-	412,680
John Redenbach	10,000	-	-	-	10,000
Karl Nixon	50,000	-	-	-	50,000

Remuneration Report (continued)
Service Agreements

Remuneration and other terms of employment for the Chairman, Managing Director, Executive Directors 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 Employee Performance Share Rights Plan.

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

David Hendy, Special Exertion Consultancy

- Term of the agreement – 11 May 2006 to 11 May 2008.
- Special exertion fee – year one $100,000 - year two $75,000 per annum
- Payment of a termination benefit on early termination by the employer is not applicable.

Tony Oates, Managing Director

- Term of the agreement – full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2007 of $481,524
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 3 months fixed remuneration

Paul Cannon, General Manager – Softgoods

- Term of the agreement - full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2007 of $275,000
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 3 months fixed remuneration
- Notice period 3 months.

Colin Caulfield, Chief Operating Officer - (resigned effective 14 December 2007)

- Term of the agreement - full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2007 of $282,234
- Payment of a termination benefit on early termination by the employer is not applicable.
- Notice period 4 weeks.

Jeff Hunter, President - Judius Worldwide – (appointed 26 March 2007)

- Term of the agreement - full-time permanent and no specific term
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2007 of $249,327
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 3 months fixed remuneration
- Notice period 3 months.

Ed Medica, General Manager- General Merchandise

- Term of the agreement - full-time permanent and no specific term
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2007 of $260,000
- Payment of a termination benefit on early termination by the employer is not applicable.
- Notice period 4 weeks.

Karl Nixon, Chief Financial Officer

- Term of the agreement - full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2007 of $270,000
- Payment of a termination benefit on early termination by the employer is not applicable.
- Notice period 4 weeks.

Mark Scott, General Manager – International and Publishing - (transferred on sale of Publishing business effective 19 February 2008)

- Term of the agreement - full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2007 of $248,577
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 4 weeks fixed remuneration
- Notice period 4 weeks.

Robert Vasy, General Manager – Toys, Nursery and Sporting - (resigned effective 14 January 2008)

- Term of the agreement - full-time permanent and no specific term.
- Base salary, inclusive of car allowance and superannuation, for the year ended 31 December 2007 of $265,000
- Payment of a termination benefit on early termination by the employer is not applicable.
- Notice period 4 weeks.

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 40 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 (Clth*).

The directors are of the opinion that the services as disclosed in note 40 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit 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 Auditors' Independence Declaration as required under section 307C of the *Corporations Act 2001 (Clth)* is set out on page 31 of this annual report.

This report is made in accordance with a resolution of Directors.

David Hendy
Chairman

Tony Oates
Managing Director

Melbourne
31 March 2008

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The Board of Directors
Funtastic Limited
635 Waverley Road
GLEN WAVERLEY VIC 3150

31 March 2008

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 December 2007, 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.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Tom Imbesi
Tom Imbesi
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the members of Funtastic Limited

Report on the Financial Report and AASB 124 Compensation Disclosures in the Directors' Report

We have audited the accompanying financial report of Funtastic Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 34 to 96.

We have also audited the compensation disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" on pages 18 to 29 of the directors' report, and not in the financial report

Directors' Responsibility for the Financial Report and the AASB 124 Compensation Disclosures Contained in the Directors' Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the compensation disclosures contained in the directors' report. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report and compensation disclosures contained in the directors' report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing 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 and the compensation disclosures comply with AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the compensation disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the compensation disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the compensation disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the compensation disclosures contained in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion on the Financial Report

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 company and consolidated entity's financial position as at 31 December 2007 and of their performance for the year ended on that date; and
  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Auditor's Opinion on the AASB 124 Compensation Disclosures Contained in the Directors' Report

In our opinion, the compensation disclosures that are contained on pages 18 to 29 under the heading "remuneration report" of the directors' report and identified as being subject to audit, comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.

DELOITTE TOUCHE TOHMATSU

Tom Imbesi
Partner
Chartered Accountants

Melbourne, 31 March 2008

Directors' 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 directors' opinion, the attached financial statements and Notes thereto are in accordance with the *Corporations Act 2001 (Clth)*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the group; and

(c) the directors have been given the declarations required by section 295A of the *Corporations Act 2001 (Clth).*

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

On behalf of the Directors

David Hendy
Chairman

Tony Oates
Managing Director

Melbourne 31 March 2008

funtastic LIMITED

Income statements

For the year ended 31 December 2007

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Revenue	5	**394,330**	362,651	**295,888**	278,840
Cost of sale of goods		**(267,441)**	(242,620)	**(212,140)**	(194,791)
Other expenses					
Warehouse and distribution		**(35,257)**	(28,009)	**(26,676)**	(23,968)
Marketing and selling		**(49,571)**	(47,060)	**(29,697)**	(31,565)
Administration		**(19,990)**	(16,467)	**(16,655)**	(14,071)
Amortisation		**(5,204)**	(4,267)	**(958)**	(55)
Finance costs		**(9,180)**	(6,889)	**(7,880)**	(5,472)
Profit before income tax	**6**	**7,687**	17,339	**1,882**	8,918
Income tax expense	7	**(2,534)**	(5,271)	**1,731**	(2,752)
Profit for the year		**5,153**	12,068	**3,613**	6,167
Profit attributable to members of Funtastic Limited		**5,153**	12,068	**3,613**	6,167
		Cents	Cents		
Earnings per share					
Basic earnings per share	29	**3.2**	9.4		
Diluted earnings per share	29	**3.2**	9.3		

The above income statements should be read in conjunction with the accompanying Notes.

Balance sheets

As at 31 December 2007

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Current Assets					
Cash	35	**2,726**	3,025	**519**	612
Trade and other receivables	9	**66,773**	61,500	**43,596**	46,377
Inventories	10	**53,469**	63,283	**35,374**	55,212
Other	11	**31,153**	21,941	**18,395**	13,018
Current tax assets	12	**6,231**	2,412	**5,397**	3,801
Other financial assets	13	**2,049**	894	**7,468**	2,967
Total Current Assets		**162,401**	153,055	**110,749**	121,987
Non-Current Assets					
Property, plant and equipment	14	**7,167**	8,293	**5,880**	7,074
Investments	15	**-**	-	**99,951**	65,608
Goodwill	16	**112,481**	95,219	**56,273**	44,686
Other intangibles	17	**39,133**	4,337	**755**	755
Other	18	**6,100**	-	**6,100**	-
Deferred tax assets	7	**4,797**	3,801	**3,137**	1,804
Total Non-Current Assets		**169,678**	111,650	**172,096**	119,927
Total Assets		**332,079**	264,705	**282,845**	241,914
Current Liabilities					
Trade and other payables	20	**18,203**	16,460	**11,561**	11,465
Borrowings	21	**37,779**	41,087	**26,288**	28,560
Provisions	22	**2,169**	1,766	**1,465**	1,317
Interest bearing deferred purchase consideration	23	**2,400**	2,181	**2,400**	2,181
Other	24	**24,423**	16,561	**14,887**	10,442
Other Financial Liabilities	25	**260**	765	**9,894**	19,721
Total Current Liabilities		**85,234**	78,820	**66,495**	73,686
Non-Current Liabilities					
Borrowings	21	**50,000**	50,139	**50,000**	50,100
Provisions	22	**950**	846	**769**	804
Deferred tax liabilities	7	**22,517**	7,338	**7,332**	3,280
Interest bearing deferred purchase consideration	23	**6,705**	6,107	**6,705**	6,107
Total Non-Current Liabilities		**80,172**	64,430	**64,806**	60,291
Total Liabilities		**165,406**	143,250	**131,301**	133,977
Net Assets		**166,673**	121,455	**151,544**	107,937
Equity					
Issued capital	26	**137,201**	85,265	**137,201**	85,265
Retained profits	27	**26,535**	34,405	**11,170**	20,580
Reserves	28	**2,937**	1,785	**3,173**	2,092
Total Equity		**166,673**	121,455	**151,544**	107,937

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

Statements of changes in equity — For the year ended 31 December 2007

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Total equity at the beginning of the year		**121,455**	114,476	**107,937**	106,467
Cash flow hedges, net of tax		**350**	(697)	**268**	(550)
Interest rate hedges, net of tax		**808**	1,089	**807**	1,089
Exchange differences on translation of foreign operations	28	**(12)**	(245)	**-**	-
Net income recognised directly in equity		**1,146**	147	**1,075**	539
Profit for the year		**5,153**	12,068	**3,613**	6,167
Total recognised income and expense for the year		**6,299**	12,215	**4,688**	6,706
Transactions with equity holders in their capacity as equity holders:					
Share-based payments		**134**	(183)	**134**	(183)
Contributions of equity		**47,494**	8,523	**47,494**	8,523
Dividends provided for or paid	30	**(13,023)**	(13,576)	**(13,023)**	(13,576)
Issue of shares in accordance with dividend reinvestment plan	30	**4,314**	-	**4,314**	-
Total equity at the end of the year		**166,673**	121,455	**151,544**	107,937

The above statements of changes in equity should be read in conjunction with the accompanying Notes.

Cash flow statements

For the year ended 31 December 2007

		Consolidated		Company	
	Note	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Cash Flows from Operating Activities					
Receipts from customers (inclusive of GST)		**430,769**	391,305	**319,033**	296,095
Payments to suppliers and employees (inclusive of GST)		**(397,308)**	(376,831)	**(284,116)**	(298,021)
		33,461	14,474	**34,917**	(1,926)
Income taxes paid		**(4,004)**	(10,139)	**(3,158)**	(5,448)
Interest and other costs of finance paid		**(8,574)**	(6,445)	**(7,275)**	(5,022)
Net Cash Outflow from Operating Activities	35	**20,883**	(2,110)	**24,484**	(12,396)
Cash Flows from Investing Activities					
Interest received		**231**	364	**195**	275
Payments for acquisition of businesses		**(7,613)**	(38,240)	**(8,411)**	(35,485)
Payments for property, plant and equipment		**(2,331)**	(2,327)	**(1,502)**	(2,117)
Proceeds from sale of property, plant and equipment		**30**	101	**14**	101
Amounts advanced to controlled entities		**-**	-	**(4,407)**	22,830
Net Cash Outflow from Investing Activities		**(9,683)**	(40,102)	**(14,111)**	(14,396)
Cash Flows from Financing Activities					
Dividends paid	30	**(8,709)**	(13,576)	**(8,709)**	(13,576)
Proceeds from issue of shares		**614**	5,828	**614**	5,828
(Repayment) / proceeds from borrowings		**(2,911)**	38,326	**(2,021)**	26,350
Repayment of hire purchase liabilities		**(469)**	(383)	**(350)**	(222)
Net Cash Inflow from Financing Activities		**(11,475)**	30,195	**(10,466)**	18,380
Net Increase / (Decrease) in Cash Held		**(275)**	(12,017)	**(93)**	(8,412)
Cash and cash equivalents at the beginning of the year		**3,025**	15,113	**612**	9,024
Effect of exchange rate changes on cash held in foreign currencies		**(24)**	(71)	**-**	-
Cash and cash equivalents at the end of the year	**35**	**2,726**	3,025	**519**	612

The above cash flow statements should be read in conjunction with the accompanying Notes.

NOTE 1: Adoption of new and revised accounting standards

In the current year, the group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations did not have any material financial impact on the financial statements of the company or the group.

At the date of authorisation of the financial report, the following relevant Standards and Interpretations were in issue but not yet effective:

- AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB101 - revised standard Effective for annual reporting periods beginning on or after 1 January 2009;
- AASB 123 Borrowing Costs (revised), AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB123;
- AASB 8 'Operating Segments', AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB3. Effective for annual reporting periods beginning on or after 1 January 2009;
- AASB3 Business Combinations (2008). Effective for annual reporting periods beginning on or after 1 July 2009;
- AASB127 Consolidated and separate financial statements. Effective for annual reporting periods beginning on or after 1 July 2009; and
- AASB2008-3 Amendments to Australian Accounting Standards arising from AASB3 & AASB127. Effective for annual reporting periods beginning on or after 1 July 2009.

Accounting for operating segments
The application of this standard may affect the manner in which the group discloses operating segments

Accounting for business combinations
This standard may affect the accounting for any future business combinations if undertaken by the group.

The directors anticipate that the adoption of these Standards in future periods will have no material financial impact on the financial statements of the group or the company.

NOTE 2: Significant accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001 (Clth)*, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the company and the consolidated financial statement of the group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and Notes of the company and the group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 31 March 2008.

Basis of preparation

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

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) (referred to as "the group" in these financial statements). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items.

(b) Income Tax

(i) Current tax

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

(ii) Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted, or substantively enacted, for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

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

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

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

(iii) Current and deferred tax for the period

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

(iv) Tax Consolidation

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

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in Note 38 to the financial statements.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Funtastic Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold or borrowings repaid a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(e) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, discounts, rebates, and taxes 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 3rd party.

Interest income is recognised on a time proportionate basis using the effective interest rate method.

Management fee revenue is recognised in accordance with the entitlement to fees for the management services provided and is brought to account on an accrual basis.

(f) Depreciation of 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 or revalued amount 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 expected useful lives are as follows:

Plant and equipment	2.5 to 10 years
Leasehold improvements	5 Years

(g) Loans and receivables

Trade, loans and other receivables, are measured at amortised cost, less allowance for doubtful debts, rebates and settlement discounts, where appropriate.

Collectability of trade receivables is reviewed in an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for doubtful receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is recognised in the income statement.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of stock on the basis of weighted average costs. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

(i) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year and which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition.

(j) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(k) Leased Non-Current Assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets (finance leases), and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the lower of fair value and the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense, so as to achieve a constant rate of interest on the remaining balance of the liability.

The leased assets are amortised on a straight line basis over the term of the lease, or where it is likely that the economic entity will obtain ownership of the asset, the life of the asset. Lease assets held at the reporting date are being amortised over five years.

Lease payments are allocated between interest (calculated by applying the interest rate implicit in the lease to the outstanding amount of the liability), rental expense and reduction of the liability.

Operating lease payments are charged to the profit and loss account on a straight line basis over the period of the lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(l) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the estimated useful life of the improvement to the group. Leasehold improvements held at the reporting date are being amortised over 5 years.

(m) Borrowings

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(n) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include:

- interest on bank overdrafts and short-term and long-term borrowings;
- finance lease charges; and
- certain exchange differences arising from foreign currency borrowings.

(o) Employee benefits

(i) Wages and Salaries and Annual Leave

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave where it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of 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) 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 adjusted Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, total shareholder performance hurdles and the risk-free interest rate for the term of the option.

The fair value of the options and performance share rights granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options or performance share rights, the balance of the share-based payments reserve relating to those options is transferred to share capital.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.
The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2002 and that vested after 1 January 2005. No amount has been recognised in the financial statements in respect of the other equity-settled share-based payments.

(iv) 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.

(v) Employee benefit on-costs

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs, when the employee benefits to which they relate are recognised as liabilities.

(p) Business combinations

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill (refer to Note 2 (r)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(q) Intangible assets

(i) Intangible assets cost

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.

(ii) Impairment of other tangible and intangible assets

At each reporting date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

(r) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash generating units (CGUs), or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets of the CGU of CGUs pro-rata on the basis of the carrying amount of each asset in the CGU (or CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in subsequent periods.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(s) Derivative financial instruments

The group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 36 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.

(i) Hedge accounting

The group designates certain hedging instruments, derivatives in respect of foreign currency, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the transaction the entity documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Note 36 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.

(ii) Cash flow hedge

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 income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(t) Financial assets

Investments are recognised on trade date where the purchase of an investment 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, net of transaction costs except for those financial assets classified as fair value through profit or loss which are initially measured at fair value.

Investments in subsidiaries are measured at cost in the company financial statements.

(i) Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If in a subsequent period the amount of impairment loss decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(u) Financial instruments issued by the company

- *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 34.

- *Other financial liabilities*

Other financial liabilities, including borrowings, are initially measured at fair value net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate a shorter period.

(v) Provisions
Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is a best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligations, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount if the receivable can be measured reliably

(w) Onerous contracts

Funtastic Limited entered into royalty contracts with key suppliers. The terms of the royalty agreements require minimum level of royalty payments to be off set against the minimum guarantees paid at the start of the contract. An onerous contract is deemed to exist for both the consolidated and company entities if, after calculating the net contribution relating to the products sold under the specific contact, there is a shortfall between the minimum guarantee and the actual royalty derived from the reported sales a provision for onerous contracts is made. 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 income statement

(x) Equity accounting of associated entities

The principles of equity accounting have been applied to an entity that is not controlled, but over which Funtastic group has significant influence.

Investments accounted for using the equity method are initially recorded at cost. Adjustments are made to the carrying amount of the investment to reflect the group's share of profit or loss, changes in post acquisition reserves and dividends or distributions received.

NOTE 3: Critical accounting judgements and key sources of estimation uncertainty

In the application of the group's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out as appropriate in the Notes to the Financial Statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates and underlying assumptions 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 group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- *Estimated impairment of goodwill*

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2 (r). The recoverable amount of each cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 16 for details of these assumptions.

- *Recoverability of prepaid and committed royalty and license agreements*

The group reviews the recoverability of prepaid royalty and license agreements, as detailed in Note 11, on an annual basis. The group takes into account current and projected market sell through in assessing the recoverability of royalty commitments.

NOTE 4: Segment information

Business and Geographical segments

Funtastic Limited operates in one business and one geographical segment. Funtastic Limited is a wholesaler and distributor operating predominantly in Australia.

NOTE 5: Revenue

	Consolidated		Company	
	2007	**2006**	**2007**	**2006**
	$'000	**$'000**	**$'000**	**$'000**
Revenue from the sale of goods				
Gross revenue	**431,903**	398,749	**314,507**	305,640
Less settlement discounts and rebates	**(45,236)**	(39,013)	**(35,395)**	(30,454)
	386,667	359,736	**279,112**	275,186
Interest from bank deposits	**231**	364	**195**	275
Commissions received	**1,118**	2,121	**747**	448
Other	**6,314**	430	**762**	221
Management fee	**-**	-	**6,786**	2,710
Dividends received	**-**	-	**8,286**	-
	7,663	2,915	**16,776**	3,654
	394,330	362,651	**295,888**	278,840

NOTE 6: Profit for the year

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Profit for the year includes the following gains and losses:				
Finance costs:				
Interest on bank loans	**8,498**	6,533	**7,198**	5,132
Interest on hire purchase agreements	**-**	27	**-**	11
Interest on deferred purchase consideration	**682**	329	**682**	329
	9,180	6,889	**7,880**	5,472
Inventory:				
Write-down of inventory to net realisable value (includes one-off provision of $6,027. 2006: Nil)	**7,344**	2,175	**7,131**	2,205
Depreciation	**3,645**	2,884	**2,541**	2,255
Loss / (profit) on disposal of plant and equipment	**20**	508	**8**	435
Amortisation of Intangibles	**5,204**	4,267	**958**	55
Operating lease rental expense:				
Rental expenses relating to operating leases	**5,334**	4,369	**3,921**	3,645
Provision for vacant space	**-**	225	**-**	225
	5,334	4,594	**3,921**	3,870
Management services provided by controlled entities	**-**	-	**1,306**	796
Employee benefit expense:				
Post employment benefits:				
Defined contribution plans	**2,782**	2,495	**2,062**	2,009
Share-based payments – employees				
Equity settled share-based payments	**134**	(192)	**134**	(192)
Termination benefits	**-**	600	**-**	600
Other employee benefits	**39,795**	35,168	**28,977**	27,250
	42,711	38,071	**31,173**	29,667

NOTE 7: Income tax

	Consolidated		Company	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
(a) Income tax expense				
Current tax	**188**	3,183	**(290)**	129
Deferred tax	**2,346**	2,088	**(1,441)**	2,623
	2,534	5,271	**(1,731)**	2,752
(b) Income Tax recognised in profit or loss				
Numerical reconciliation of income tax expense to prima facie tax payable				
Operating profit before income tax expense	**7,687**	17,339	**1,882**	8,918
Tax at the Australian tax rate of 30% (2006: 30%)	**2,306**	5,202	**565**	2,675
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:				
Difference in overseas tax rates	**8**	49	**-**	-
Dividends received from Subsidiaries	**-**	-	**(2,486)**	-
Expenses that are not deductible in determining taxable profit	**220**	20	**190**	77
Income tax expense	**2,534**	5,271	**(1,731)**	2,752

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period. The group also operates in New Zealand and Hong Kong where the corporate tax rates are 33% and 17.5% respectively.

(c) Amounts recognised directly in equity				
Deferred Tax Asset / (Liability):				
Financial instruments treated as cash flow hedges	**(505)**	(158)	**(461)**	(231)
(d) Current tax balances				
Current tax assets and liabilities				
Income tax receivable from tax office	**6,231**	2,412	**5,397**	3,801
Income tax payable to tax office	**-**	-	**-**	-
(e) Deferred tax balances				
Deferred tax assets comprises:				
Temporary differences	**4,797**	3,801	**3,137**	1,804
Deferred tax liability comprises:				
Temporary differences	**22,517**	7,338	**7,332**	3,280

NOTE 7:	Income tax (continued)

Deferred tax Assets / (Liabilities) arise from the following:

Amounts charged to income				
Provisions – receivables	**288**	1,188	**(639)**	298
Provisions – employee benefits	**1,036**	776	**732**	636
Intangibles – Licenses, distribution agreements and supplier relationships	**(11,539)**	(1,136)	**(26)**	(61)
Brands	**-**	(166)	**-**	(166)
Property, plant and equipment	**854**	767	**834**	585
Accruals	**132**	98	**103**	41
Prepaid royalties	**(10,289)**	(5,250)	**(6,656)**	(2,585)
Inventory	**1,213**	(150)	**903**	(150)
Tax Loss	**899**	-	**899**	-
Other	**223**	368	**221**	31
Amounts recognised directly in equity				
Cash flow hedges	**(537)**	(32)	**(566)**	(105)
	(17,720)	(3,537)	**(4,195)**	(1,476)
Movements:				
Opening balance as at 1 January	**(3,537)**	1,232	**(1,476)**	1,621
Charged / (credited) to the income statement	**(2,344)**	(2,088)	**1,441**	(2,623)
Charged / (credited) to equity	**(505)**	(159)	**(462)**	(231)
Acquisition of business (Note 34)	**-**	(243)	**(218)**	(243)
Acquisition of subsidiary (Note 34)	**(11,334)**	(2,279)	**-**	-
Transfer of tax losses from parent	**-**	-	**(3,480)**	-
Closing balance as at 31 December	**(17,720)**	(3,537)	**(4,195)**	(1,476)

Tax consolidation

Relevance of tax consolidation to the group.

The company and its wholly-owned Australian resident entities formed a tax-consolidation group with effect from 1 January 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidation group is Funtastic Limited. The members of the tax-consolidated group are identified in Note 33.

Nature of tax funding arrangement and tax sharing agreement.

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Funtastic Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to the other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

NOTE 8: Finance costs

	Consolidated		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Interest on bank overdrafts and loans	**9,133**	6,546	**7,833**	5,145
Interest on hire purchase agreements	**-**	27	**-**	11
Other interest expense	**682**	329	**682**	329
Total Interest expense	**9,815**	6,902	**8,515**	5,485
Fair value (gains) on interest rate swaps designated as cash flow hedges transferred from equity	**(635)**	(13)	**(635)**	(13)
	9,180	6,889	**7,880**	5,472

NOTE 9: Current assets – Trade and other receivables

	Consolidated		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Trade receivables (1)	**80,093**	70,589	**51,812**	50,218
Amount owing from director related entities	**877**	1,887	**879**	1,887
Allowance for doubtful debts	**(299)**	(269)	**(128)**	(60)
Credit notes, rebates and settlement discounts	**(14,785)**	(11,928)	**(9,788)**	(6,656)
	65,886	60,279	**42,775**	45,389
Other receivables	**887**	1,221	**821**	988
	66,773	61,500	**43,596**	46,377

(1) The average credit period on sales of goods is 60 days. No interest is charged on the trade receivables. 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 $7,683,000 (2006:$2,907,000) 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 average age of these receivables is 90 days (2006: 90 days).

Included in the company's trade receivable balance are debtors with a carrying amount of $5,041,000 (2006:$2,585,000) which are past due at the reporting date for which the company has not impaired as there has not been a significant change in credit quality and the company believes the amounts are recoverable. The company does not hold any collateral over these balances. The average age of these receivables is 90 days (2006: 90 days).

The group and company review trade debtors on an ongoing basis and make a provision against specific debtors based on management's assessment of the debtors' ability to settle the debt.

The group and company review the provision for credit notes, rebates and settlement discounts on an ongoing basis and make provision for individual customers based on historical sales, trading terms and expected returns, settlement discounts and rebates.

NOTE 9:	Current assets – Trade and other receivables (continued)

Movement in Allowance for doubtful debts, credit notes, rebates and settlement discounts

Consolidated	Consolidated Doubtful debts $'000	Consolidated Rebates, credit notes & settlement discount $'000	Consolidated Total $'000	Company Doubtful debts $'000	Company Rebates, credit notes & settlement discount $'000	Company Total $'000
2007						
Balance at beginning of year	(269)	(11,928)	(12,197)	(60)	(6,656)	(6,716)
Utilised	35	24,090	24,125	35	21,577	21,612
Provisions raised	(55)	(36,505)	(36,560)	(133)	(34,587)	(34,720)
Acquisition of subsidiary & business combination	(40)	(320)	(360)	-	-	-
Provisions reversed	30	9,878	9,908	30	9,878	9,908
Balance at end of the year	**(299)**	**(14,785)**	**(15,084)**	**(128)**	**(9,788)**	**(9,916)**
2006						
Balance at beginning of the year	(148)	(11,668)	(11,816)	(81)	(8,060)	(8,141)
Utilised	166	26,361	26,527	99	25,724	25,823
Provisions raised	(157)	(26,441)	(26,598)	(157)	(24,853)	(25,010)
Acquisition of subsidiary & business combination	(380)	(6,320)	(6,700)	(171)	(2,937)	(3,108)
Provisions reversed	250	6140	6,390	250	3,470	3,720
Balance at end of the year	**(269)**	**(11,928)**	**(12,197)**	**(60)**	**(6,656)**	**(6,716)**

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 10:	Current assets – Inventories

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Finished goods – at cost	**44,045**	58,808	**26,077**	51,783
Finished goods – at net realisable value	**9,424**	4,475	**9,297**	3,429
	53,469	63,283	**35,374**	55,212

NOTE 11:	Current assets – Other

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Prepaid royalties and other prepayments	**31,153**	21,941	**18,395**	13,018

NOTE 12:	Current assets – Tax assets

	Consolidated		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Tax receivable	**6,231**	2,412	**5,397**	3,801

NOTE 13:	Current assets – Other financial assets

		Consolidated		Company	
		2007	2006	2007	2006
	Note	$'000	$'000	$'000	$'000
Derivatives designated and effective as hedging instruments carried at fair value:					
Interest rate swaps	36	**2,049**	894	**2,049**	894
		2,049	894	**2,049**	894
Non Interest bearing loans – controlled entities		**-**	-	**2,399**	-
Interest bearing loans – controlled entities		**-**	-	**3,020**	2,073
		2,049	894	**7,468**	2,967

Loans to controlled entities are unsecured and interest of the ruling standard variable rate is charged on the outstanding balance.

NOTE 14:	Non-current assets – Property, plant and equipment

	Consolidated		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Plant and equipment – at cost	**16,656**	14,594	**14,020**	12,864
Less: accumulated depreciation	**(10,283)**	(7,067)	**(8,763)**	(6,487)
	6,373	7,527	**5,257**	6,377
Leasehold improvements	**1,196**	920	**946**	851
Less: accumulated amortisation	**(402)**	(154)	**(323)**	(154)
	794	766	**623**	697
	7,167	8,293	**5,880**	7,074

Aggregate depreciation allocated during the year is recognised as an expense and disclosed in Note 6 to the financial statements.

NOTE 14:	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:

Consolidated	Plant and Equipment $'000	Leasehold Improvements $'000	Total $'000
2007			
Cost			
Opening Balance	14,594	920	15,514
Additions	2,054	272	2,326
Additions on acquisition	321	4	325
Disposals	(313)	-	(313)
Closing Balance	**16,656**	**1,196**	**17,852**
Accumulated Deprecation			
Opening Balance	(7,067)	(154)	(7,221)
Disposals	181	-	181
Depreciation / amortisation	(3,397)	(248)	(3,645)
Closing Balance	**(10,283)**	**(402)**	**(10,685)**
Written Down Value			
Opening Balance	7,527	766	8,293
Closing Balance	**6,373**	**794**	**7,167**
2006			
Cost			
Opening Balance	13,263	1,460	14,723
Additions	2,076	251	2,327
Additions on acquisition	1,138	-	1,138
Disposals	(1,883)	(791)	(2,674)
Closing Balance	**14,594**	**920**	**15,514**
Accumulated Deprecation			
Opening Balance	(5,939)	(381)	(6,320)
Disposals	1,598	385	1,983
Depreciation / amortisation	(2,726)	(158)	(2,884)
Closing Balance	**(7,067)**	**(154)**	**(7,221)**
Written Down Value			
Opening Balance	7,324	1,079	8,403
Closing Balance	**7,527**	**766**	**8,293**

NOTE 14: Non-current assets – Property, plant and equipment (continued)

Company	Plant and Equipment $'000	Leasehold Improvements $'000	Total $'000
2007			
Cost			
Opening Balance	12,864	851	13,715
Additions	1,420	95	1,515
Disposals	(264)	-	(264)
Closing Balance	**14,020**	**946**	**14,966**
Accumulated Deprecation			
Opening Balance	(6,487)	(154)	(6,641)
Disposals	96	-	96
Depreciation / amortisation	(2,372)	(169)	(2,541)
Closing Balance	**(8,763)**	**(323)**	**(9,086)**
Written Down Value			
Opening Balance	6,377	697	7,074
Closing Balance	**5,257**	**623**	**5,880**
2006			
Cost			
Opening Balance	12,534	1,391	13,925
Additions	1,866	251	2,117
Additions on acquisition	42	-	42
Disposals	(1,578)	(791)	(2,369)
Closing Balance	**12,864**	**851**	**13,715**
Accumulated Deprecation			
Opening Balance	(5,905)	(381)	(6,286)
Disposals	1,573	327	1,900
Depreciation / amortisation	(2,155)	(100)	(2,255)
Closing Balance	**(6,487)**	**(154)**	**(6,641)**
Written Down Value			
Opening Balance	6,629	1,010	7,639
Closing Balance	**6,377**	**697**	**7,074**

funtastic LIMITED

NOTE 15: Non-current assets – Investments

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Investment in controlled entities	33	**-**	-	**99,951**	65,608

NOTE 16: Non-current assets – Goodwill

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Gross carrying amount					
Balance at the beginning of financial year		**95,219**	68,226	**44,686**	40,447
Additional amounts recognised from business combinations occurring during the year	34	**14,279**	27, 530	**-**	4,239
Effects of foreign currency exchange differences		**(166)**	(705)	**-**	-
Deferred payment		**3,051**	-	**-**	-
Purchase of business on restructure		**-**	-	**11,562**	-
Other		**93**	168	**25**	-
Balance at the end of financial year		**112,481**	95,219	**56,273**	44,686
Net book value					
Balance at the beginning of financial year		**95,219**	68,226	**44,686**	40,447
Balance at the end of financial year		**112,481**	95,219	**56,273**	44,686

Impairment tests for goodwill

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	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $,000
Toys – Australia	**30,119**	30,051	**30,120**	18,558
DVD and Theatrical distribution	**26,345**	23,292	**-**	-
Confectionery	**4,264**	4,239	**4,264**	4,239
Nursery	**2,839**	2,839	**2,839**	2,839
Apparel	**19,050**	19,050	**19,050**	19,050
Educational toys and furniture	**14,279**	-	**-**	-
Toys – New Zealand	**15,585**	15,745	**-**	-
Total	**112,481**	95,219	**56,273**	44,686

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

Toys – Australia

The recoverable amount of the Toys CGU as determined 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 11.50% which averages the weighted average cost of capital ("WACC") for the CGU.

Cash flow projections during the budget period are based on normalised gross margins by the CGU and an average growth rate in sales of 1.7%. Cash flows beyond the five year period have been extrapolated using similar or lower growth rates. The growth rates used in the model do not exceed the long term average growth rate for the market in which the toys business operates.

Management believes that any reasonable possible change in key assumptions on which the recoverable is based would not cause the CGU's carrying amount to exceed its recoverable amount.

DVD and Theatrical distribution

The recoverable amount of the DVD and theatrical distribution CGU as determined 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 12.50% which averages the weighted average cost of capital ("WACC") for the CGU.

Cash flow projections during the budget period are based on normalised gross margins by the CGU and an average growth rate in sales of 1%. Cash flows beyond the five year period have been extrapolated using similar or lower growth rates. The growth rates used in the model do not exceed the long term average growth rate for the market in which the toys business operates.

Management believes that any reasonable possible change in key assumptions on which the recoverable is based would not cause the CGU's carrying amount to exceed its recoverable amount.

Confectionery

The recoverable amount of the confectionery CGU as determined 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 10.50% which averages the weighted average cost of capital ("WACC") for the CGU.

Cash flow projections during the budget period are based on normalised gross margins by the CGU and an average growth rate in sales of 5.32%. Cash flows beyond the five year period have been extrapolated using similar or lower growth rates. The growth rates used in the model do not exceed the long term average growth rate for the market in which the toys business operates.

Management believes that any reasonable possible change in key assumptions on which the recoverable is based would not cause the CGU's carrying amount to exceed its recoverable amount.

Nursery

The recoverable amount of the nursery CGU as determined 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 12.50% which averages the weighted average cost of capital ("WACC") for the CGU.

Cash flow projections during the budget period are based on normalised gross margins by the CGU and an average growth rate in sales of 3.22%. Cash flows beyond the five year period have been extrapolated using similar or lower growth rates. The growth rates used in the model do not exceed the long term average growth rate for the market in which the toys business operates.

Management believes that any reasonable possible change in key assumptions on which the recoverable is based would not cause the CGU's carrying amount to exceed its recoverable amount.

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

Apparel

The recoverable amount of the apparel CGU as determined 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 12.50% which averages the weighted average cost of capital ("WACC") for the CGU.

Cash flow projections during the budget period are based on normalised gross margins by the CGU and an average growth rate in sales of 1.62%. Cash flows beyond the five year period have been extrapolated using similar or lower growth rates. The growth rates used in the model do not exceed the long term average growth rate for the market in which the toys business operates.

Management believes that any reasonable possible change in key assumptions on which the recoverable is based would not cause the CGU's carrying amount to exceed its recoverable amount.

Educational toys and furniture

The recoverable amount of the educational toys and furniture CGU as determined 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 13.50% which averages the weighted average cost of capital ("WACC") for the CGU.

Cash flow projections during the budget period are based on normalised gross margins by the CGU and an average growth rate in sales of 15.74%. Cash flows beyond the five year period have been extrapolated at 4.30% to 4.40%. The growth rates used in the model do not exceed the long term average growth rate for the market in which the toys business operates.

Management believes that any reasonable possible change in key assumptions on which the recoverable is based would not cause the CGU's carrying amount to exceed its recoverable amount.

Toys – New Zealand

The recoverable amount of the toys- New Zealand CGU as determined 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 11.00% which averages the weighted average cost of capital ("WACC") for the CGU.

Cash flow projections during the budget period are based on normalised gross margins by the CGU and an average growth rate in sales of 4.96%. Cash flows beyond the five year period have been extrapolated using similar or lower growth rates. The growth rates used in the model do not exceed the long term average growth rate for the market in which the toys business operates.

Management believes that any reasonable possible change in key assumptions on which the recoverable is based would not cause the CGU's carrying amount to exceed its recoverable amount.

Impairment charge

The recoverable amount for each separately identifiable CGU exceeds the carrying amount, therefore there is no impairment charge applicable for the year ended 31 December 2007 (2006: None).

NOTE 17:	Non-current assets – Other intangibles

	Consolidated		Company	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**
Brand Names	**552**	552	**552**	552
Licenses, distribution agreements & supplier relationships	**48,500**	8,500	**258**	258
Less: Accumulated amortisation and impairment	**(9,919)**	(4,715)	**(55)**	(55)
	39,133	4,337	**755**	755

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

	Consolidated			Company		
$'000	Brand Names	Licenses, distribution agreements and supplier relationships	Total	Brand Names	Licenses, distribution agreements and supplier relationships	Total
Gross carrying amount						
Balance at 1 January 2006	-	3,142	3,142	-	-	-
Additions	552	5,358	5,910	552	258	810
Balance at 1 January 2007	**552**	**8,500**	**9,052**	**552**	**258**	**810**
Additions (iv)	-	40,000	40,000	-	-	-
Acquisition of license agreements upon restructure (v)	-	-	-	-	958	958
Balance as at 31 December 2007	**552**	**48,500**	**49,052**	**552**	**1,216**	**1,768**
Accumulated amortisation and impairment						
Balance at 1 January 2006	-	(448)	(448)	-	-	-
Amortisation expense(iii)	-	(4,267)	(4,267)	-	(55)	(55)
Balance at 1 January 2007	**-**	**(4,715)**	**(4,715)**	**-**	**(55)**	**(55)**
Amortisation expense(iii)	-	(5,204)	(5,204)	-	(958)	(958)
Balance at 31 December 2007	**-**	**(9,919)**	**(9,919)**	**-**	**(1,013)**	**(1,013)**
Net book value						
As at 31 December 2006	552	3,785	4,337	552	203	755
As at 31 December 2007	**552**	**38,581**	**39,133**	**552**	**203**	**755**

(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 5.32% and the Discount Rate 10.50%.

(ii) Licenses, distribution agreements and supplier relationships separately identified as part of the acquisitions of the Madman and Dorcy groups of companies in May 2006 and August 2005, respectively. These have a finite useful life and are amortised in proportion with the revenues generated from the exploitation of the assets over a period of ten years.

(iii) Amortisation and impairment of $5,204,000 (2006: $4,267,000), with respect to the licenses, distribution agreements and supplier relationships is included in amortisation expense in the income statement.

(iv) The EJA agreement is a long term customer agreement with A.B.C Learning Centres Limited.
This agreement was separately identified as an intangible during the Judius acquisition and is amortised over its useful life of 20 years commencing 2 January 2007.
Cash flow projections during the budget period are based on normalised gross margins by the CGU and an average growth rate in sales of 15.74%. Cash flows beyond the five year period have been extrapolated at 4.30% to 4.40%. The growth rates used in the model do not exceed the long term average growth rate for the market in which the toys business operates.

Management believes that any reasonable possible change in key assumptions on which the recoverable is based would not cause the CGU's carrying amount to exceed its recoverable amount.

(v) Acquisition of Dorcy Irwin license agreements upon restructure as at 1 July 2007.

.

NOTE 18: Non-current assets – Other

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Prepaid royalties and other prepayments	**6,100**	-	**6,100**	-

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. The group does not hold title to the equipment under finance lease pledged as security.

NOTE 20: Current liabilities – Trade and other payables

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Trade payables (1)	**18,203**	16,460	**11,561**	11,465
	18,203	16,460	**11,561**	11,465

(1) The average credit period on purchases of certain goods from international customers range from four weeks to four months. There is no interest charged on trade payables. The group and company have financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

NOTE 21: Borrowings

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Secured – at amortised cost					
Current					
Trade finance		**4,995**	10,114	**5,000**	10,114
Bill finance		**16,496**	27,512	**5,000**	15,000
Debtors finance		**16,288**	3,196	**16,288**	3,196
		37,779	40,822	**26,288**	28,310
Hire purchase liabilities	32	**-**	265	**-**	250
Total Current		**37,779**	41,087	**26,288**	28,560
Non-current					
Bill finance		**50,000**	50,000	**50,000**	50,000
Hire purchase liabilities	32	**-**	139	**-**	100
Total Non-current		**50,000**	50,139	**50,000**	50,100
		87,779	91,225	**76,288**	78,660
Current borrowings		**37,779**	41,086	**26,288**	28,560
Non-current borrowings		**50,000**	50,139	**50,000**	50,100
		87,779	91,225	**76,288**	78,660

NOTE 21:	Borrowings (continued)

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.

Hire purchase liabilities are secured as rights to the assets revert to the hire purchase company in the event of default.

Financing Arrangements

$50,000,000 of the Commercial Bill facilities expires 31 December 2010.
The remaining facilities expire on 31 May 2008 at which stage they will be renegotiated.

The current interest rates are 7.69% on the National Debtors Finance Facility, 7.85% on the trade finance facility and 6.74% on the Commercial Bill Facility (2006: 7.7%, 7.7% and 6.8% respectively)

Financing Arrangements – Controlled Entities

Planet Fun Pty Limited

The Commercial Bill Facility of NZ$ 13,000,000 (A$12,389,381) expires on 31 May 2008 and the current interest rate is 9.86%.

All facilities are secured by a first ranking mortgage debenture of the group.

NOTE 22:	Provisions

	Consolidated		**Company**	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**
Current				
Employee benefits	**2,169**	1,766	**1,465**	1,317
	2,169	1,766	**1,465**	1,317
Non-current				
Employee benefits	**950**	846	**769**	804
	950	846	**769**	804
	3,119	2,612	**2,234**	2,121

NOTE 23:	Interest bearing deferred purchase consideration

	Consolidated		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Current				
Deferred purchase acquisition costs	**2,400**	2,181	**2,400**	2,181
	2,400	2,181	**2,400**	2,181
Non-current				
Deferred purchase acquisition costs	**6,705**	6,107	**6,705**	6,107
	6,705	6,107	**6,705**	6,107
	9,105	8,288	**9,105**	8,288

On 10 May 2006 the company acquired all of the issued shares in the Madman Group of Companies (Madman), a leading independent distributor of DVD products into retail and rental stores throughout Australia and New Zealand.

As part of the negotiated purchase price an earn-out is payable to the vendors, based on a multiple of future EBIT for the each of the years ending 31 December 2007 to 31 December 2009. The amount payable, based on profit for the year ended 31 December 2006, has been included in the determination of the value of goodwill. Interest on the earn-out consideration is payable to the Vendors at 6.5% per annum.

NOTE 24:	Other liabilities

	Consolidated		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Other Liabilities				
Accrued royalties	**13,992**	4,554	**10,508**	3,905
GST	**2,201**	2,187	**(54)**	993
Accrued interest deferred purchase consideration	**859**	330	**859**	330
Accrued rebates	**182**	150	**182**	150
Payroll accruals	**317**	252	**226**	131
Other accrued expenses	**6,872**	9,088	**3,166**	4,933
	24,423	16,561	**14,887**	10,442

NOTE 25:	Other financial liabilities

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Derivatives					
Derivatives that are designated and effective as hedging instruments carried at fair value:					
Foreign currency forward contract	36	**260**	765	**162**	765
		260	765	**162**	765
Loans-controlled entities		**-**	-	**9,732**	18,956
Disclosed in the financial statements as:					
Current other financial liabilities		**260**	765	**9,894**	19,721

Loans from controlled entities are at call unsecured and interest free.

NOTE 26:	Issued capital

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Share Capital				
165,498,841 fully paid ordinary shares (2006: 132,760,618)	**137,201**	85,265	**137,201**	85,265

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.

Details	Note	2007 Number of Shares '000	2007 $'000	2006 Number of Shares '000	2006 $'000
Movements in Ordinary Share Capital					
Opening balance		**132,761**	85,265	**127,124**	76,411
Madman issue ex-sale agreement	34	**-**	-	**1,556**	2,695
Judius issue ex-sale agreement	34	**29,118**	46,880	**-**	-
Dividend reinvestment plan	30	**2,933**	4,314	**-**	-
Share purchase plan		**-**	-	**3,366**	5,151
Capital raising costs		**-**	-	**-**	(12)
Issue of shares under employee share option plan	37	**687**	614	**715**	689
Transfer from equity-settled reserve	28	**-**	128	**-**	331
Closing balance		**165,499**	**137,201**	**132,761**	**85,265**

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.

NOTE 26:	Issued capital (continued)

Share Purchase Plan

There were no Share Purchase Plans offered to shareholders during the financial year (2006: On 25 September 2006, 3,366,146 shares were issued at an issue price of $1.53 through a Share Purchase Plan (SPP) where eligible shareholders were invited to subscribe for up to $5,000 worth of Shares)

Share Issue on Acquisition of Business Assets

During the year, on 2 January 2007, 29,117,647 ordinary shares were issued at a price of $1.85 as part payment for the Judius Group of Companies (2006: on 9 May 2006, 1,555,870 shares were issued at an issue price of $1.73 as part payment for the business of the MadMan Group of Companies) (details of which are in Note 34).

Options

Employee Share Options

In accordance with the provisions of the employee share option plan as at 31 December 2007, employees and directors have options over 1,920,893 ordinary shares (of which 1,652,143 are unvested). As at 31 December 2006 employees and directors had options over 3,083,754 ordinary shares (of which 1,903,129) are unvested).

Information relating to the Funtastic Limited Executive Share Option Plan, including details of shares issued under the scheme, are set out in note 37.

Ordinary Options - MGA Entertainment (HK) Limited

On 19 January 2004, Funtastic issued 1,500,000 Ordinary Options pursuant to a distribution agreement with MGA Entertainment (HK) Limited. The agreement is in respect of the exclusive distribution of Bratz toys, electronics, sporting goods and related products for the Australia and New Zealand region.

The options vested on 31 December 2004 and may be exercised, at an exercise price of $1.50 at any time up until the expiry date of 19 January 2014.

NOTE 27:	Retained profits

	Consolidated		Company	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**
Opening balance	**34,405**	35,913	**20,580**	27,989
Net profit after tax for the year	**5,153**	12,068	**3,613**	6,167
Dividends paid	**(13,023)**	(13,576)	**(13,023)**	(13,576)
Balance at the end of financial year	**26,535**	34,405	**11,170**	20,580

NOTE 28: Reserves

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Currency translation reserve	**(171)**	(159)	**-**	-
Equity-settled benefits	**1,852**	1,847	**1,852**	1,847
Cash flow Hedging	**1,256**	97	**1,321**	245
	2,937	1,785	**3,173**	2,092

Currency translation reserve

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Balance at the beginning of the year	**(159)**	86	**-**	-
Translation of foreign operations	**(12)**	(245)	**-**	-
Balance at the end of the year	**(171)**	(159)	**-**	-

Exchange differences relating to the translation from United States Dollars, New Zealand Dollars and Hong Kong Dollars, being the functional currencies of the consolidated entity's foreign controlled entities in USA, New Zealand and Hong Kong, into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

Equity settled benefit reserve

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Balance at the beginning of the year	**1,847**	2,360	**1,847**	2,360
Share based payment	**133**	(183)	**133**	(183)
Transfer to share capital	**(128)**	(331)	**(128)**	(331)
Balance at the end of the year	**1,852**	1,847	**1,852**	1,847

The equity-settled benefit reserve arises on the grant of share options and performance share rights to executives and other beneficiaries under the executive share option, and performance share rights plans. Amounts are transferred out of the reserve and into issued capital when the options or rights are exercised. Further information about share-based payments is made in Note 37 to the financial statements.

NOTE 28:	Reserves (continued)

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash Flow Hedging reserve				
Balance at the beginning of the year	**97**	(294)	**245**	(294)
Gain / (Loss) recognised:				
Forward exchange contracts	**497**	(1,006)	**381**	(785)
Interest rate swaps	**1,156**	1,555	**1,156**	1,555
Transferred to profit or loss [1] :				
Interest rate swaps	**635**	13	**635**	13
Transferred to initial carrying amount of hedged item:				
Interest rate swaps	**(635)**	(13)	**(635)**	(13)
Deferred tax asset / (liability) arising on hedges	**(494)**	(158)	**(461)**	(231)
Balance at the end of the year	**1,256**	97	**1,321**	245

The hedging reserve represents hedging gains or losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

(1) Gains and (losses) transferred from equity into profit or loss during the period are included in the following line items on the face of the income statement:

Revenue	**-**	-	**-**	-
Borrowing costs	**635**	13	**635**	13
	635	13	**635**	13

NOTE 29:	Earnings per share

	Consolidated	
	2007 Cents per share	**2006 Cents per share**
Earnings per share	**3.2**	9.4
Diluted earnings per share	**3.2**	9.3

Earnings per share
The earnings and weighted average number of ordinary shares used in the calculation of earnings per share are as follows:

	2007 $'000	**2006 $'000**
Net profit	**5,153**	12,068
Earnings used in the calculation of EPS	**5,153**	12,068

	2007 No. '000	**2006 No. '000**
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	**160,003**	128,314

Diluted earnings per share

The earnings used in the calculation of diluted earnings per share are as follows:

	2007 $'000	**2006 $'000**
Net profit	**5,153**	12,068
Earnings used in the calculation of diluted EPS	**5,153**	12,068

	2007 No. '000	**2006 No. '000**
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share.	**163,003**	128,314
Shares deemed to be issued for no consideration in respect of:		
Share options and performance share rights	**-**	931
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share.	**163,003**	129,245

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:

	2007 No. '000	**2006 No. '000**
Potential options non dilutive	**952**	-
	952	-

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

	2007 No. '000	**2006 No. '000**
Options to purchase ordinary shares pursuant to the employee share option plan	**-**	931
	-	931

NOTE 30: Dividends

	2007 Cents per share	2007 $'000	2006 Cents per share	2006 $'000
Recognised amounts				
Ordinarily fully franked dividend paid				
Final dividend – prior year				
Fully franked at a 30% tax rate	**4.0**	**6,479**	6.5	8,266
Interim dividend – current year				
Fully franked at a 30% tax rate	**4.0**	**6,544**	4.0	5,310
	8.0	**13,023**	10.5	13,576

Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the year ended 31 December 2007 and 2006 were as follows:

	2007 $'000	2006 $'000
Paid in cash	**8,709**	13,576
Satisfied by issue of shares	**4,314**	-
	13,023	13,576

	2007 Cents per share	2007 $'000	2006 Cents per share	2006 $'000
Unrecognised amounts				
Fully paid ordinary shares				
Final dividend: Fully franked at a 30% tax rate	**-**	**-**	4.0	6,479
	-	**-**	4.0	6,479

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Adjusted franking account balance	**22,698**	24,194	**10,226**	11,723
Impact on franking account balance of dividends not recognised	**-**	(2,775)	**-**	(2,775)

The above amount represents the balances of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment / (refund) of income tax payable as at the end of the year;
- franking debits that will arise from the payment of dividends proposed as at the end of the year; and
- franking credits that may be prevented from being distributed in the subsequent financial year.

NOTE 31:	Commitments for expenditure

	Consolidated		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000

Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 32 to the financial statements

License guarantee commitments

Under the terms of various License Agreements the company guarantees the minimum levels of royalty payments. The commitment in relation to these guarantees contracted for but not capitalised in the accounts are payable as follows:

Not later than one year	**13,489**	14,367	**13,068**	13,294
Later than one year but not later than two years	**5,021**	15,510	**2,677**	15,505
Later than two years but not later than five years	**-**	5	**-**	5
	18,510	29,882	**15,745**	28,804

NOTE 32:	Leases

	Consolidated		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000

Non-cancellable operating lease payments

Commitments in relation to non-cancellable operating leases contracted for but not capitalised in the accounts are payable as follows:

Not later than one year	**4,275**	3,788	**3,294**	3,519
Later than one year but not later than five years	**5,903**	6,501	**5,462**	6,210
Later than five years	**241**	1,870	**241**	1,870
	10,419	12,159	**8,997**	11,599

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.

Hire purchase commitments

Not later than one year	**-**	278	**-**	263
Later than one year but not later than five years	**-**	144	**-**	105
Minimum lease and hire purchase payments	**-**	422	**-**	368
Less future finance charges	**-**	(18)	**-**	(18)
Total hire purchase liabilities	**-**	404	**-**	350
Representing:				
Current	**-**	265	**-**	250
Non-current	**-**	139	**-**	100
	-	404	**-**	350

The weighted average interest rate in the hire purchase agreements is Nil% (2006: 8.00%).
The hire purchase agreements in 2006 were non-cancellable and were in respect to motor vehicles and warehouse equipment with lease terms of up to 18 months.

NOTE 33: Subsidiaries

Name of Entity	Country of Incorporation	Equity Holding 2007 %	Equity Holding 2006 %
Company			
Funtastic Limited (i)	Australia		
Subsidiaries			
JNH Australia Pty Ltd (ii)	Australia	**100**	100
Fun International Ltd	Hong Kong	**100**	100
Funtastic International Limited	Hong Kong	**100**	100
Planet Fun Pty Limited (ii)	Australia	**100**	100
Dorcy Irwin Pacific Pty Limited (ii)	Australia	**100**	100
Dorcy Investments Pty Limited (ii)	Australia	**100**	100
Irwin Pacific Pty Limited (ii)	Australia	**100**	100
Dorcy NZ Pty Limited	New Zealand	**50**	50
Madman Entertainment Pty Limited (ii)	Australia	**100**	100
Madman Films Pty Limited (ii)	Australia	**100**	100
Madman Interactive Pty Limited (ii)	Australia	**100**	100
The AV Channel Pty Limited (ii)	Australia	**100**	100
Judius Pty Ltd (ii)	Australia	**100**	-
Judius NZ Pty Limited	New Zealand	**100**	-
My Paint Box Inc (formerly Global Funtastic Inc.) (iii)	USA	**100**	-

(i) Funtastic Limited is the head entity within the tax-consolidated group.
(ii) These companies are members of the tax-consolidated group.
(iii) Incorporated 30 May 2007

NOTE 34: Acquisition of businesses

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Cost of acquisition $'000
2007				
Judius Group of Companies (1)	Educational toys & furniture	2 January 2007	100	53,217
				53,217
2006				
Madman Group of Companies	Distributor of DVD products	10 May 2006	100	38,019
Mike & Jack Confectionery	Confectionery	10 May 2006	100	5,305
				43,324

(1) The acquired business contributed revenue of $37,358,000 and net profit after tax of $4,200,000 to the group for the period 2 January 2007 to 31 December 2007.

NOTE 34: Acquisition of businesses (continued)

Net assets acquired	Judius Group of Companies Book value $'000	Fair value adjustment $'000	Fair value on acquisition $'000
Current assets			
Cash	798	-	798
Debtors	4,108	(86)	4,022
Inventories	7,549	(1,147)	6,402
Other current assets	189	-	189
Current tax assets	41	-	41
Non-current assets			
Plant and equipment	332	(7)	325
Customer agreement	-	40,000	40,000
Deferred tax asset	133	533	666
Current liabilities			
Trade creditors	(840)	-	(840)
Provisions	-	(105)	(105)
Interest bearing liabilities	(65)	-	(65)
Employee benefits	(299)	(153)	(452)
Other current liabilities	(43)	-	(43)
Non-current liabilities			
Deferred tax liability	-	(12,000)	(12,000)
	11,903	27,035	38,938
Goodwill on acquisition			14,279
			53,217

The cost of the acquisition comprises directly attributable costs related to the acquisition of $1,379,000, cash to the vendor of $5,000,000 and the issue of 29,117,647 ordinary shares.

The key commercial terms of the customer agreement are:

- Ongoing supply arrangement, with Judius supplying toys, furniture and learning and development products on an exclusive basis to all of A.B.C Learning Centres Limited's (ABC) childcare centres;
- Judius' right to supply ABC is global, and has an initial term of 20 years; and
- ABC will be entitled to a percentage of revenue on sales made to and through ABC centres.

The goodwill is attributable to the buyer specific synergies that arise on acquisition and the additional revenue expected from sales to ABC which are not part of the EJA agreement; and an increase in sales of Judius product to the traditional Funtastic customer base.

NOTE 34:	Acquisition of businesses (continued)

	Madman Group of Companies		
Net assets acquired	Book value $'000	Fair value adjustment $'000	Fair value on acquisition $'000
Current assets			
Cash	676	-	676
Debtors	9,583	-	9,583
Inventories	2,880	-	2,880
Other current assets	8,162	-	8,162
Non-current assets			
Plant and equipment	1,257	(162)	1,095
Licenses and Distribution Agreements	-	5,100	5,100
Deferred tax asset	1,741	120	1,861
Current liabilities			
Trade creditors	(3,184)	-	(3,184)
Interest bearing liabilities	(55)	-	(55)
Employee benefits	(371)	-	(371)
Current tax liabilities	(1,042)	-	(1,042)
Other current liabilities	(5,515)	(238)	(5,753)
Non-current liabilities			
Deferred tax liability	(2,610)	(1,530)	(4,140)
Other Non Current Liabilities	(84)	-	(84)
	11,438	3,290	14,728
Goodwill on acquisition			23,291
			38,019

The cost of this acquisition comprise directly attributable costs related to the acquisition of $684,000, cash to the vendor of $26,351,000; an earn out consideration of $8,288,000 and the issue of 1,555,870 ordinary shares. The goodwill is attributable to the buyer specific synergies that arise on acquisition.

An earn out will be payable based on a multiple of future EBIT for each of the years ended 31 December 2006 to 31 December 2009. Interest on the earn out consideration is payable at 6.5% per annum.

NOTE 34:	Acquisition of businesses (continued)

Net assets acquired	Mike & Jack Confectionery Book value $'000	Fair value adjustment $'000	Fair value on acquisition $'000
Current assets			
Cash	2	-	2
Debtors	1,444	-	1,444
Inventories	1,666	-	1,666
Other current assets	81	-	81
Non-current assets			
Plant and equipment	42	-	42
Licenses and licensor relationships	-	258	258
Brands	-	552	552
Current liabilities			
Trade creditors	(481)	-	(481)
Interest bearing liabilities	(1,959)	-	(1,959)
Employee benefits	(71)	-	(71)
Other current liabilities	(225)	-	(225)
Non-current liabilities			
Deferred tax liability	-	(243)	(243)
	499	567	1,066
Goodwill on acquisition			4,239
			5,305

The cost of this acquisition comprises directly attributable costs related to the acquisition of $205,000 and cash to the vendor of $5,100,000.

The goodwill is attributable to the buyer specific synergies that arose on acquisition.

NOTE 35:	Notes to the cash flow statement

	Consolidated		Company	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000

Reconciliation of cash and cash equivalents

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	**2,726**	3,025	**519**	612
	2,726	3,025	**519**	612

Businesses acquired

During the financial year, the group acquired the Judius Group of Companies; the net cash outflow of this acquisition was $5,434,000. Refer Note 34 for further details. In addition to this acquisition costs in relation to Mike and Jack confectionery and Dorcy Irwin Pacific of $26,000 and $51,000 were made respectively. A deferred payment of $2,102,000 was also made in respect of the Madman acquisition.

In 2006 the group acquired two businesses and settled the earn out component of the purchase consideration associated with acquisitions of the Planet Fun ($3,430,000) and Dorcy Irwin ($2,500,000) businesses in 2005.The net cash outflow of these acquisitions was $38,239,792

Financing facilities

Total Facilities				
National Debtor Finance Facility	**25,000**	25,000	**25,000**	25,000
Trade Refinance Facility	**25,000**	40,000	**25,000**	40,000
	50,000	65,000	**50,000**	65,000
Used at Balance Date				
National Debtor Finance Facility	**16,288**	3,195	**16,288**	3,195
Trade Refinance Facility	**4,995**	10,114	**4,995**	10,114
	21,283	13,309	**21,281**	13,309
Unused at Balance Date				
National Debtor Finance Facility	**8,712**	21,805	**8,712**	21,805
Trade Refinance Facility	**20,005**	29,886	**20,005**	29,886
	28,717	51,691	**28,717**	51,691
Commercial Bill Facilities				
Total facilities	**67,389**	87,512	**55,000**	87,512
Used at balance date	**66,496**	77,512	**55,000**	77,512
Unused at balance date	**893**	10,000	**-**	10,000
Documentary Letter of Credit Facilities				
Total facilities	**25,280**	50,000	**25,280**	50,000
Used at balance date	**9,662**	13,171	**9,662**	13,171
Unused at balance date	**15,618**	36,829	**15,618**	36,829
Bank Guarantee Facilities				
Total facilities	**2,000**	1,560	**2,000**	1,560
Used at balance date	**1,910**	743	**1,910**	743
Unused at balance date	**90**	817	**90**	817

NOTE 35:	Notes to the cash flow statement (continued)

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

	Consolidated		Company	
	2007	**2006**	**2007**	**2006**
	$'000	**$'000**	**$'000**	**$'000**
Profit after income tax	**5,153**	12,068	**3,613**	6,167
Amortisation and impairment	**5,204**	4,267	**958**	55
Depreciation	**3,645**	2,844	**2,541**	2,255
Interest revenue	**(231)**	(364)	**(195)**	(275)
Share options expense	**134**	(183)	**134**	(183)
Dividends received	**-**	-	**(8,286)**	-
Write down of inventory to NRV	**7,344**	2,175	**7,131**	2,205
(Profit) / loss on sale of non-current assets	**20**	508	**8**	435
Decrease / (increase) in trade and other receivables	**(7,790)**	2,258	**(2,933)**	(1,858)
(Increase) / decrease in inventories	**8,842**	(8,594)	**12,704**	(6,362)
Decrease / (increase) in deferred tax asset	**(757)**	288	**(4,859)**	338
(Increase) / decrease in prepayments	**(15,120)**	(6,618)	**(11,476)**	(5,830)
Increase / (decrease) in trade creditors and accruals	**10,110**	(2,610)	**18,879**	(1,529)
(Decrease) / increase in current tax liability	**(3,542)**	(7,062)	**(3,103)**	(5,750)
(Decrease) / increase in employee provisions	**(45)**	(62)	**114**	(254)
Increase / (decrease) in deferred tax liability	**2,833**	1,801	**3,418**	2,619
(Decrease) / increase in doubtful debts, credit notes, rebates and settlement discounts	**5,083**	(2,826)	**5,836**	(4,429)
Net cash inflow / (outflow) from operating activities	**20,883**	(2,110)	**24,484**	(12,396)

NOTE 36:	Financial instruments

Capital risk management

The group and company manages 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 consist 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, retained earnings and reserves as disclosed in notes 26, 27 and 28 respectively.

The board reviews the capital structure on a regular basis. As part of this review the cost of capital and the risks associated with each class of capital is considered. The group balances its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt and the repayment of debt.

At the year end the group and the company complied with their externally imposed capital requirements. The lending covenants were:

- Liquidity ratio to be above 1.1 times;
- Interest cover ratio to be above 2.75 times; and
- Debt / EBITDA to be less than 3.5 times.

NOTE 36: Financial instruments (continued)

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 year.

Categories of financial instruments

Financial Instrument	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Financial assets				
Derivative instruments in designated hedge accounting relationships	**2,049**	894	**2,049**	894
Loans and receivables (including cash and cash equivalents)	**75,141**	67,205	**49,663**	52,902
Financial liabilities				
Derivative instruments in designated hedge accounting relationships	**260**	765	**162**	765
Amortised cost	**129,078**	120,527	**113,603**	117,590

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, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The group seeks to minimise the effects of these risks, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives 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.

The group's and company's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- Forward foreign currency exchange contracts to hedge the exchange risk arising on the import of inventories purchased in United States Dollars; and
- Forward interest rate contracts to manage interest rate risk.

There has been no change to the group's and company's exposure to market risks or the manner in which it manages and measures the risk.

Market risk

The group's and company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The group enters into a variety of derivative financial instruments to manage its exposure to interest rates and foreign currency risk, including:

- Foreign exchange forward contracts to hedge the exchange rate risk arising on the import of goods and services denominated in US dollars; and
- Interest rate contracts to mitigate the risk of rising interest rates.

NOTE 36:	Financial instruments (continued)

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

There has been no change to the group's and company's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management

The group and company undertake certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts.

The carrying amount of the group's and company's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Consolidated				**Company**			
	Liabilities		**Assets**		**Liabilities**		**Assets**	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**	**2007 $'000**	**2006 $'000**	**2007 $'000**	**2006 $'000**
US dollars	**3,552**	3,322	**4,338**	3,244	**1,667**	1,950	**4,245**	3,211
NZ dollars	**19,711**	19,608	**6,608**	6,213	**-**	940	**1,780**	1,172
Euro	**53**	398	**5**	2	**1,920**	398	**5**	2
Other	**221**	84	**29**	-	**-**	84	**29**	-

Foreign currency sensitivity

As a result of the group and company's hedging policy and the group policy of adjusting prices for changes in foreign denominated purchases, the group and company do not have any material foreign currency exposure which would affect profit or loss.

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:

Company

	Average Exchange Rate		**Foreign currency**		**Contract value**		**Fair value**	
Outstanding contracts	**2007**	**2006**	**2007 US$'000**	**2006 US$'000**	**2007 A$'000**	**2006 A$'000**	**2007 $'000**	**2006 $'000**
Buy US dollars								
0-12 months	**0.8800**	0.7687	**14,448**	17,964	**16,632**	23,371	**(162)**	(544)
Total	**0.8800**	0.7687	**14,448**	17,964	**16,632**	23,371	**(162)**	(544)

Planet Fun – New Zealand

	Average Exchange Rate		**Foreign currency**		**Contract value**		**Fair value**	
Outstanding contracts	**2007**	**2006**	**2007 US$'000**	**2006 US$'000**	**2007 NZ$'000**	**2006 NZ$'000**	**2007 $'000**	**2006 $'000**
Buy US dollars								
0-12 months	**0.7200**	0.6514	**1,253**	2,250	**1,739**	3,454	**(97)**	(221)
Total	**0.7200**	0.6514	**1,253**	2,250	**1,739**	3,454	**(97)**	(221)

NOTE 36:	Financial instruments (continued)

The group's forward foreign exchange contracts comprise the company and Planet Fun – New Zealand forward foreign exchange contracts.

The group and the company have entered into contracts to purchase inventory from overseas suppliers. The group has entered into forward foreign exchange contracts 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 contracts were liabilities of the group of $259,000 (2006: liability $765,000) and liabilities of the company of $162,000 (2006: liability $544,350).

During the year ended 31 December 2007 a gain on hedging instruments for the group of $497,000 (2006: loss: $1,006,271) and for the company $381,000 (2006: loss: $785,199) have been brought to account in other current financial assets and liabilities (refer note 28). An amount, net of tax, was transferred to equity. It is anticipated the these purchases will take place during the first 6 months of the next financial year at which stage the amount deferred in equity will be included in the carrying amount of the finished goods inventory. It is anticipated that the finished goods inventory will be sold within 12 months after purchase at which stage the amount deferred in equity will impact profit or loss.

Interest rate risk management

The group and the company are 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 and the company's' exposures 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 and company at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represent management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 100 basis points higher or lower and all other variables were held constant, the group and the company's':

- Net profit would increase / decrease by $492,000 (2006: increase / decrease by $408,000). This is mainly due to the group's exposure to interest rates on its variable rate borrowings; and
- Other equity reserves would increase / decrease by $500,000 (2006: increase / decrease by $500,000).

Interest Rate Swap Contracts

Bank loans of the consolidated entity currently bear an average variable interest rate of 7.56%. It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the consolidated entity 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 contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

Swaps currently in place cover 100% (2006: 100%) of the long term loan principal outstanding and are timed to expire as the end of the facility. The fixed interest rate is 6.71% (2006: 6.71%) and the variable rate is the bank bill rate of the term of the underlying bill which at balance date was 7.02% (2006: 6.40%).

NOTE 36:	Financial instruments (continued)

As at 31 December 2007, the notional principal amounts and the periods of expiry of the interest rate swap contract was as follows:

Outstanding floating for fixed contracts	Average contracted fixed interest rate 2007 %	2006 %	Notional principal amount 2007 $'000	2006 $'000	Fair value 2007 $'000	2006 $'000
Less than 2 years	-	-	**-**	-	**-**	-
2 - 3 years	6.71	-	**50,000**	-	**2,040**	-
4 - 5 years	-	6.71	**-**	50,000	**-**	894
			50,000	50,000	**2,040**	894

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swap is the Australian bank bill swap rate (BBSW). The group will settle the difference between the fixed and floating interest rate on a net basis.

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps 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 and company. The group and company have 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 and company 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 has 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. The initiation of a debt reduction plan, which will be achieved through a combination of divesting under-performing or non core assets and inventory reduction.

Liquidity and interest tables

The following tables detail the group's and the company'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.

NOTE 36: Financial instruments (continued)

Consolidated	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
2007							
Non-interest bearing	-	24,376	7,410	4,684	5,903	241	42,614
Finance lease liability	-	-	-	-	-	-	-
Variable interest rate instruments	8.28	21,428	-	17,114	-	-	38,542
Fixed interest rate instruments (1)	6.68	-	-	2,466	67,205	-	69,671
		45,804	**7,410**	**24,264**	**73,108**	**241**	**150,827**
2006							
Non-interest bearing	-	13,937	6,688	4,177	6,501	1,870	33,173
Finance lease liability	-	-	-	-	-	-	-
Variable interest rate instruments	7.30	13,412	44	28,554	150	-	42,160
Fixed interest rate instruments	6.68	-	-	2,240	70,996	-	73,236
		27,349	6,732	34,971	77,647	1,870	148,569

(1) The effective interest rate instruments include variable borrowings which rate has been fixed using an interest rate swap. Refer to page 78.

Company	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
2007							
Non-interest bearing	-	17,141	14,559	3,395	5,462	241	40,798
Finance lease liability	-	-	-	-	-	-	-
Variable interest rate instruments	7.59	26,454	-	-	-	-	26,454
Fixed interest rate instruments	6.70	-	-	2,466	65,655	-	68,121
		43,595	**14,559**	**5,861**	**71,117**	**241**	**135,373**
2006							
Non-interest bearing	-	10,513	23,981	3,570	6,210	1,870	46,144
Finance lease liability	-	-	-	-	-	-	-
Variable interest rate instruments	7.39	13,412	42	15,468	100	-	29,022
Fixed interest rate instruments	-	-	-	2,240	70,321	-	72,561
		23,925	24,023	21,278	76,631	1,870	147,727

The following table details the group's and the company'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 and or the company anticipates that the cash flow will occur in a different period.

NOTE 36: Financial instruments (continued)

Consolidated	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
2007							
Non-interest bearing	-	63,083	972	8,936	-	-	72,991
Variable interest rate instruments	4.62	2,158	-	-	-	-	2,158
Fixed interest rate instruments	-	-	-	-	-	-	-
		65,241	**972**	**8,936**	**-**	**-**	**75,149**
2006							
Non-interest bearing	-	57,093	3,890	3,274	-	-	64,257
Variable interest rate instruments	4.70	2,959	-	-	-	-	2,959
Fixed interest rate instruments	-	-	-	-	-	-	-
		60,052	3,890	3,274	-	-	67,216

Company	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
2007							
Non-interest bearing	-	40,767	3,686	1,760	-	-	46,213
Variable interest rate instruments	7.79	431	3,083	-	-	-	3,514
Fixed interest rate instruments	-	-	-	-	-	-	-
		41,198	**6,769**	**1,760**	**-**	**-**	**49,727**
2006							
Non-interest bearing	-	38,144	7,124	5,249	-	-	50,517
Finance lease liability	-	-	-	-	-	-	-
Variable interest rate instruments	5.85	541	1,893	-	-	-	2,434
Fixed interest rate instruments	-	-	-	-	-	-	-
		38,685	9,017	5,249	-	-	52,951

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their fair values.

NOTE 37:	Share-based payments

Executive Share Option Plan

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 1

50% (that is, 25% per annum) is exercisable on the attainment of budgeted net profit after tax for the first two years and 50% is exercisable based on the continued employment with the company for three consecutive years.

Option type 2

50% exercisable if the average diluted EPS reaches or exceeds 13% per annum over a three year period commencing five years prior to the expiry date and 50% exercisable if the average diluted EPS reaches or exceeds 17% per annum over the same five year period and executive remaining in employment at the date of vesting.

Option type 3

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.

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

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

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five days immediately before the options are granted. Amounts receivable on the exercise of options are recognised as share capital.

Set out below are summaries of options granted under the plan and the balance outstanding at the end of the financial year for the current and preceding years.

NOTE 37:	Share-based payments (continued)

Options Granted

Option type	Option Number	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
2	24	100,000	27/02/2006	02/04/2011	$1.88	$0.33
2	25	250,000	11/05/2006	31/03/2011	$1.86	$0.22
3	27	497,143	15/08/2006	02/09/2011	$1.64	$0.30
3	30	250,000	17/05/2007	02/09/2011	$1.64	$0.30
3	32	340,000	29/06/2007	02/09/2012	$1.82	$0.38

Balance outstanding at the end of the financial year

Consolidated and Company - 2007

Option type	Option Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Balance at end of financial year
1	5	23/09/2003	02/04/2008	$1.10	$0.75	7,500
1	6	11/11/2003	01/08/2008	$1.52	$0.32	105,000
1	7	17/12/2003	17/09/2008	$1.89	$0.38	56,250
1	8	29/12/2004	29/12/2008	$2.18	$0.46	50,000
1	9	05/01/2004	05/01/2009	$2.12	$0.45	50,000
1	11	03/11/2004	09/08/2009	$2.39	$0.47	50,000
2	24	27/02/2006	02/04/2011	$1.88	$0.33	100,000
2	25	11/05/2006	31/03/2011	$1.86	$0.22	250,000
2	27	15/08/2006	02/09/2011	$1.64	$0.30	327,143
3	30	17/05/2007	02/09/2011	$1.64	$0.30	250,000
3	32	29/06/2007	02/09/2012	$1.82	$0.38	170,000
						1,415,893

NOTE 37:	Share-based payments (continued)

Consolidated and Company - 2006

Option type	Option Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Balance at end of financial year
1	4	13/11/2002	13/11/2007	$0.88	$0.16	650,000
1	4	07/03/2003	07/03/2007	$0.88	$0.19	42,500
1	5	23/09/2003	02/04/2008	$1.10	$0.75	47,500
1	6	11/11/2003	01/08/2008	$1.52	$0.32	105,000
1	7	17/12/2003	17/09/2008	$1.89	$0.38	190,625
1	8	29/12/2004	29/12/2008	$2.18	$0.46	50,000
1	9	05/01/2004	05/01/2009	$2.12	$0.45	50,000
1	22	14/04/2004	14/04/2007	$2.10	$0.40	15,000
1	11	03/11/2004	09/08/2009	$2.39	$0.47	100,000
2	20	03/08/2005	02/04/2010	$2.00	$0.41	661,064
2	24	27/02/2006	02/04/2011	$1.88	$0.33	100,000
2	25	11/05/2006	31/03/2011	$1.86	$0.22	250,000
3	27	15/08/2006	02/09/2011	$1.64	$0.30	497,143
						2,758,832

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.

NOTE 37:	Share-based payments (continued)

The model inputs for options granted include:

Option Number	**3**	**4**	**5**	**6**	**7**	**8**
Issue Date	02/05/03	13/11/02	02/04/03	01/08/03	17/12/03	29/12/03
Vesting Date	16/01/04	06/12/03	30/01/05	11/03/05	03/06/05	30/12/05
Expiry Date	18/10/07	13/11/07	02/04/08	01/08/08	17/09/08	29/12/08
Exercise price	$0.92	$0.88	$1.10	$1.52	$1.89	$2.18
Stock Price at Issue	$1.33	$0.88	$1.89	$1.55	$1.89	$2.18
Expected Life (years)	3.04	3.06	3.83	3.61	3.46	4.01
Volatility	30%	30%	30%	30%	30%	30%
Risk free rate	4.6%	4.8%	4.8%	5.0%	5.4%	5.6%
Dividend yield	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Vesting period (years)	1.0	1.1	1.8	1.6	1.5	2.0
Value	$0.44	$0.16	$0.75	$0.32	$0.38	$0.47

Option Number	**9**	**10**	**11**	**12**	**14**	**20**
Issue Date	05/01/04	18/02/04	09/08/04	17/12/04	29/04/05	03/08/05
Vesting Date	01/01/06	16/01/06	14/03/06	30/03/07	30/03/07	31/03/08
Expiry Date	05/01/09	18/02/09	09/08/09	02/04/09	02/04/09	02/04/10
Exercise price	$2.12	$2.16	$2.39	$2.04	$2.04	$2.00
Stock Price at Issue	$2.12	$2.16	$2.39	$2.04	$1.72	$2.00
Expected Life (years)	3.99	3.91	3.60	3.28	2.92	3.66
Volatility	30%	30%	30%	30%	30%	30%
Risk free rate	5.6%	5.5%	5.4%	4.9%	5.3%	5.3%
Dividend yield	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Vesting period (years)	2.0	1.9	1.6	2.3	1.9	2.7
Value	$0.45	$0.46	$0.48	$0.40	$0.23	$0.41

Option Number	**22**	**24**	**25**	**27**	**30**	**32**
Issue Date	14/04/04	27/02/06	11/05/06	15/08/06	17/05/07	29/06/07
Vesting Date	03/02/06	02/04/09	02/04/09	31/03/09 & 31/08/09	31/03/09 & 31/08/09	02/04/10 & 31/08/10
Expiry Date	14/04/07	02/04/11	31/03/11	02/09/11	02/09/11	02/09/12
Exercise price	$2.10	$1.88	$1.86	$1.64	$1.64	$1.82
Stock Price at Issue	$2.10	$1.88	$1.61	$1.64	$1.64	$1.82
Expected Life (years)	2.91	4.10	3.90	3.84	3.08	3.97
Volatility	30%	30%	30%	30%	30%	30%
Risk free rate	5.3%	5.3%	5.5%	5.8%	5.8%	5.8%
Dividend yield	4.3%	6.0%	6.0%	6.0%	6.0%	6.0%
Vesting period (years)	1.8	3.1	2.9	2.8	2.08	2.97
Value	$0.40	$0.33	$0.22	$0.30	$0.30	$0.38

NOTE 37: Share-based payments (continued)

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

	2007		2006	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at the beginning of the financial year	**2,758,832**	**1.62**	4,477,531	1.65
Granted during the financial year	**590,000**	**1.74**	847,143	1.74
Forfeited during the financial year	**(726,748)**	**1.82**	-	-
Exercised during the financial year	**(687,500)**	**0.89**	(715,000)	0.96
Expired during the financial year	**(518,692)**	**2.00**	(1,850,842)	2.01
Balance at the end of the financial year	**1,415,893**	**1.78**	2,758,832	1.62
Exercisable at the end of the financial year	**268,750**	**1.87**	1,135,625	1.24

Options exercised during the financial year and number of shares issued to employees on the exercise of options.

2007				2006			
Option No.	Number exercised	Exercise Date	Share price at exercise Date $	Option No.	Number exercised	Exercise Date	Share price at exercise Date $
5	10,000	09/03/07	$1.89	4	37,500	06/01/06	$1.73
4	5,000	22/03/07	$1.84	4	50,000	31/03/06	$1.76
5	15,000	30/07/07	$1.71	5	50,000	06/04/06	$1.80
5	7,500	31/07/07	$1.70	4	50,000	18/05/06	$1.75
4	650,000	01/10/07	$1.41	3	250,000	29/06/06	$1.60
				4	37,500	03/08/06	$1.74
				5	25,000	09/08/06	$1.72
				4	50,000	25/09/06	$1.64
				5	150,000	26/09/06	$1.65
				4	15,000	04/10/06	$1.61
	687,500				715,000		

The fair value of shares issued on the exercise of options 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 options.

The weighted average remaining contractual life of the share options outstanding as at 31 December 2007 is 3.02 years (2006: 2.70 years)

The weighted average fair value of options granted during the year was $0.34 (2006: $0.31)

NOTE 37:	Share-based payments (continued)

Executive options vested at the reporting date are as follows:

Option No.	Option Price	2007 Number	2006 Number
4	0.88	**-**	692,500
5	1.10	**7,500**	47,500
6	1.52	**105,000**	105,000
7	1.89	**56,250**	190,625
8	2.18	**50,000**	50,000
11	2.39	**50,000**	50,000
		268,750	1,135,625

Aggregate proceeds received from executives on the exercise of options and recognised as issued capital in the financial year was $614,426 (2006:$689,468).

Market value of shares issued to executives on the exercise of options as at their issue date in the financial year was $983,000 (2006:$1,192,275)

Employee Performance Share Rights

During 2005 the company established the Funtastic Employee Performance Share Rights Plan (EPSR).

Rights are granted under the plan for no consideration. Rights are granted over varying periods and on conditions attributable to each issue of right. The entitlements to the EPSRs are available as soon as they become exercisable.

The rights are not exercisable until certain performance criteria are met as follows:

EPSR Type 1

50% are granted if the average diluted EPS reaches or exceeds 13% per annum over a three year period commencing three years prior to the expiry date and 50% are granted if the average diluted EPS reaches or exceeds 17% per annum over the same three year period and the employee remains in employment at the date of vesting.

EPSR Type 2

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

a) for 50% to vest the average diluted earnings per share (EPS) growth rate over three years is required to be 11%p.a;
b) for the remaining 50% to vest the average diluted EPS growth rate over three years is required to be 15%p.a;
c) if the average annual diluted EPS growth rate over three years is between 11%p.a and 15%p.a, the options will vest proportionately from 50% up to 100% of the entitlement; and
d) the employee being in continuous employment with the company until 31 March in the year following the three years.

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

a) for 50% to vest, Funtastic's relative total shareholders return (TSR) during the three year period is required to be at least equal to the TSR achieved by the company which is the median of the companies in the Comparator Group ranked by TSR performance (The Comparator Group comprises the companies in the S&P ASX small ordinaries index at the start of the period);
b) for the remaining 50% of the entitlement to vest, Funtastic's TSR has to be equal to or greater than the TSR of the company which is at the 75th percentile of the Comparator Group ranked by TSR performance during the three year period;
c) for each percentile increase in Funtastic's TSR ranking above the median ranking up to the 75th percentile, an additional 2% vests up to 100%; and
d) the employee being in continuous employment with the Company until 31 August in the year following the three years.

NOTE 37: Share-based payments (continued)

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

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

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

Set out below are summaries of rights granted under the plan for the current and preceding year.

EPSR's granted

EPSR type	EPSR Number	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
2	26	287,500	15/08/2006	02/09/2009	Nil	$1.64
2	28	5,000	08/09/2006	02/09/2009	Nil	$1.59
2	31	342,500	29/06/2007	02/09/2010	Nil	$1.82

EPSR Balance outstanding at the end of the financial year

Consolidated and Company - 2007

EPSR type	EPSR Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Balance at end of financial year
2	26	15/08/2006	02/09/2009	Nil	$1.64	177,500
2	31	29/06/2007	02/09/2010	Nil	$1.82	327,500
						505,000

Consolidated and Company - 2006

EPSR type	EPSR Number	Grant date	Expiry date	Exercise price	Fair value at grant date	Balance at end of financial year
1	21	03/08/2005	02/04/2008	Nil	$2.00	102,637
1	23	04/10/2005	02/04/2008	Nil	$2.11	4,787
2	26	15/08/2006	02/09/2009	Nil	$1.64	212,500
2	28	08/09/2006	02/09/2009	Nil	$1.59	5,000
						324,924

No Rights were vested at the reporting date

Fair value of performance rights granted

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

NOTE 37:	Share-based payments (continued)

The model inputs for performance rights granted include:

PSR Number	13	21	23	26	28	31
Issue Date	30/04/05	03/08/05	04/10/05	15/08/06	08/09/06	29/06/07
Vesting Date	30/03/07	31/03/08	31/03/08	31/03/09 & 31/08/09	31/03/09 & 31/08/09	02/04/10 & 31/08/10
Expiry Date	02/04/07	02/04/08	02/04/08	02/09/09	002/09/09	02/09/10
Exercise price	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Stock Price at Issue	$1.72	$2.00	$2.11	$1.64	$1.59	$1.82
Expected life (year)	1.92	2.67	2.50	3.05	2.99	3.18
Volatility	30%	30%	30%	30%	30%	30%
Risk free rate	5.3%	5.3%	5.3%	5.8%	5.8%	5.8%
Dividend yield	4.3%	4.3%	4.3%	6.0%	6.0%	6.0%
Vesting period (year)	1.9	2.7	2.5	2.8	2.8	3.0
Value	$1.72	$2.00	$2.11	$1.64	$1.59	$1.82

The following reconciles the outstanding EPSRs granted under the employee performance share rights option plan at the beginning and end of the financial year:

	2007		2006	
	Number of EPSRs	Weighted average exercise price $	Number of EPSRs	Weighted average exercise price $
Balance at the beginning of the financial year	**324,924**	**-**	250,818	-
Granted during the financial year	**342,500**	**-**	292,500	-
Forfeited during the financial year	**(38,200)**	**-**	-	-
Exercised during the financial year	**-**	**-**	-	-
Expired during the financial year	**(124,224)**	**-**	(218,394)	-
Balance at the end of the financial year	**505,000**	**-**	324,924	-
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 December 2007 is 2.28 years (2006: 2.16 years)

The weighted average fair value of performance share rights granted during the year was $1.82 (2006: $1.63)

NOTE 38:	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:

David Hendy - Chairman and Non-executive director

David Berry - Non-executive director

Harry Boon - Non-executive director (retired 28 February 2007)

Antony Lynch – Independent Non-executive director

Moshe Meydan - Non-executive director (retired 25 June 2007)

Tony Oates - Managing Director

Graeme Yeomans – Independent Non-executive director (appointed 26 September 2007)

Paul Cannon - General Manager Softgoods

Colin Caulfield - Chief Operating Officer (resigned effective 14 December 2007)

Jeff Hunter - President Judius Global (appointed 26 March 2007)

Ed Medica - General Manager General Merchandise

Karl Nixon - Chief Financial Officer

Mark Scott - General Manager International and Publishing (transferred on sale of Publishing business 19 February 2008)

Robert Vasy - General Manager Toys, Nursery and Sporting (resigned 14 January 2008)

Key management personnel compensation

The aggregate compensation made to key management personnel of the group and the company is set out below:

	Consolidated		**Company**	
	2007 $	**2006 $**	**2007 $**	**2006 $**
Short-term employee benefits	**2,531,545**	2,615,799	**2,288,077**	2,615,799
Post-employment benefits	**202,328**	364,540	**196,469**	364,540
Termination benefits	**-**	116,341	**-**	116,341
Share-based payment	**(46,870)**	(6,972)	**(50,501)**	(6,972)
	2,687,003	3,089,708	**2,434,045**	3,089,708

The company has transferred the detailed Key Management Personnel remuneration disclosures to the Directors' Report. The relevant information can be found in the remuneration report on pages18 to 29.

NOTE 39: Related party transactions

a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 33 to the financial statements.

b) Transactions with Key Management Personnel

Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 38 to the financial statements.

Loans to key management personnel

There are no outstanding loans to key management personnel of the group or to their related entities (2006: Nil)

Key management personnel equity holdings

Option holdings

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

2007	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year i.e. lapsed	Balance at the end of the year	Vested and exercisable at the end of the year
Directors						
David Hendy	-	-	-	-	-	-
Moshe Meydan (1)	-	-	-	-	-	-
Tony Oates	400,000	250,000	(150,000)	-	500,000	-
David Berry	-	-	-	-	-	-
Antony Lynch	-	-	-	-	-	-
Graeme Yeomans (2)	-	-	-	-	-	-
Executives						
Paul Cannon	157,143	-	-	-	157,143	-
Colin Caulfield (3)	312,373	170,000	-	(482,373)	-	-
Jeff Hunter(4)	-	-	-	-	-	-
Ed Medica	-	-	-	-	-	-
Karl Nixon	336,949	170,000	-	(116,949)	390,000	-
Mark Scott(5)	-	-	-	-	-	-
Robert Vasy(6)	175,000	-	-	(100,000)	75,000	-

(1) Mr M Meydan - retired on 25 June 2007
(2) Mr G Yeomans – appointed 26 September 2007
(3) Mr C Caulfield - resigned effective 14 December 2007
(4) Mr J Hunter – appointed 27 March 2007
(5) Mr M Scott – transferred on sale of Publishing business effective 19 February 2008
(6) Mr R Vasy – resigned 14 January 2008

NOTE 39: Related party transactions (continued)

2006	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year i.e. lapsed	Balance at the end of the year	Vested and exercisable at the end of the year
Directors						
David Hendy	250,000	-	(250,000)	-	-	-
Moshe Meydan	182,000	-	-	(182,000)	-	-
Tony Oates	349,000	250,000	-	(199,000)	400,000	150,000
David Berry	-	-	-	-	-	-
Antony Lynch	-	-	-	-	-	-
Executives						
Ian Ashmore	231,000	-	(50,000)	(181,000)	-	-
Paul Cannon	-	157,143	-	-	157,143	-
Colin Caulfield	434,373	170,000	(150,000)	(142,000)	312,373	-
Karl Nixon	166,949	170,000	-	-	336,949	-
John Redenbach	100,000	-	-	(100,000)	-	-
Mark Scott	-	100,000	-	-	100,000	-
Robert Vasy	265,000	-	-	(90,000)	175,000	75,000

Performance Share Right holdings

The number of Performance Share Rights held during the financial year by each of the key management personnel of the consolidated entity, including their personally-related entities, are set out below.

2007	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year i.e. lapsed	Balance at the end of the year	Vested and exercisable at the end of the year
Executives						
Paul Cannon	-	30,000	-	-	30,000	-
Colin Caulfield (1)	-	-	-	-	-	-
Jeff Hunter(2)	-	25,000	-	-	25,000	-
Ed Medica	25,000	30,000	-	-	55,000	-
Karl Nixon	-	-	-	-	-	-
Robert Vasy(3)	30,000	30,000	-	-	60,000	-
Mark Scott(4)	-	30,000	-	-	30,000	-

(1) Mr C Caulfield - resigned effective 14 December 2007
(2) Mr J Hunter – appointed 27 March 2007
(3) Mr R Vasy – resigned 14 January 2008
(4) Mr M Scott – transferred on sale of Publishing business effective 19 February 2008

NOTE 39:	Related party transactions (continued)

2006	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year i.e. lapsed	Balance at the end of the year	Vested and exercisable at the end of the year
Executives						
Ian Ashmore	-	25,000	-	(25,000)	-	-
John Redenbach	-	25,000	-	(25,000)	-	-
Robert Vasy	-	30,000	-	-	30,000	-

Share holdings

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

2007	Balance at the start of the year	Received during the year on the exercise of options	Shares purchased during the year	Shares sold during the year	Balance at the end of the year or date of retirement / resignation
Directors					
David Hendy	4,599,650	-	-	(2,000,000)	2,599,650
David Berry	183,314	-	4,191 (8)	(33,429)	154,076
Harry Boon (1)	20,000	-	-	-	20,000
Antony Lynch	13,267	-	-	-	13,267
Moshe Meydan (2)	7,946,479	-	-	(1,500,000)	6,446,679
Tony Oates	608,938	150,000	60,000	-	818,938
Graeme Yeomans (3)	-	-	250,000	-	250,000
Executives					
Paul Cannon	-	-	-	-	-
Colin Caulfield (4)	412,680	-	-	(349,036)	63,644
Jeff Hunter (5)	-	-	-	-	-
Ed Medica	-	-	-	-	-
Karl Nixon	50,000	-	-	-	50,000
Robert Vasy (6)	-	-	-	-	-
Mark Scott (7)	-	-	-	-	-

(1) Mr H Boon - retired on 28 February 2007
(2) Mr M Meydan - retired on the 25 June 2007
(3) Mr G Yeomans - appointed to the board on the 26 September 2007
(4) Mr C Caulfield - resigned effective 14 December 2007
(5) Mr J Hunter – appointed 27 March 2007
(6) Mr R Vasy – resigned 14 January 2008
(7) Mr M Scott – transferred on sale of Publishing business effective 19 February 2008
(8) Shares acquired through Dividend reinvestment plan

NOTE 39:	Related party transactions (continued)

2006	Balance at the start of the year	Received during the year on the exercise of options	Shares purchased during the year	Shares sold during the year	Balance at the end of the year or date of retirement / resignation
Directors					
Geoff Tomlinson	1,092,220	-	-	-	1,092,220
David Hendy	5,789,650	250,000	-	(1,440,000)	4,599,650
David Berry	180,047	-	3,267	-	183,314
Harry Boon	20,000	-	-	-	20,000
Antony Lynch	-	-	13,267	-	13,267
Moshe Meydan	7,946,479	-	-	-	7,946,479
Tony Oates	545,871	-	63,067	-	608,938
Executives					
Ian Ashmore	-	50,000	-	(50,000)	-
Colin Caulfield	262,680	150,000	-	-	412,680
John Redenbach	10,000	-	-	-	10,000
Karl Nixon	50,000	-	-	-	50,000

c) Transactions with other related parties

Transactions between Funtastic Limited and other entities in the wholly-owned group during the years ended 31 December 2007 and 2006 consisted of:

- 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.

Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly-owned group:

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Loans to controlled entities	**-**	-	**5,420**	2,073
Loans from controlled entities	**-**	-	**9,732**	19,177
Sale of product to controlled entity	**-**	-	**786**	233
Interest charged to controlled entity	**-**	-	**132**	252
Provision of management services to controlled entities	**-**	-	**6,786**	2,710
Management services provided by controlled entities	**-**	-	**1,306**	796

NOTE 39: Related party transactions (continued)

d) Transactions with Key Management Personnel

Mr D Berry, a director and company secretary, was a partner of the accounting firm O'Keeffe Walton Berry, which provided company secretarial services to Funtastic Limited during the year. The services were provided on an arms length basis and the service agreement is based on normal terms and conditions. As at 31 December 2007 the amount payable was Nil (2006: Nil)

Mr D Hendy is a director and has an interest in Hendy Properties Pty Limited. Funtastic had a lease agreement to rent an office building owned jointly by Hendy Properties Pty Ltd and Tolmer Products Pty Ltd. The lease agreement is based on normal terms and conditions and supported by independent valuation. During the year Funtastic entered into a deed of surrender in respect of the lease agreement with Hendy Properties the terms of which amount to a surrender payment of $100,000 which was owing at 31 December 2007 (2006: Nil) to Hendy Properties Pty Ltd.

Mr D Hendy is a director and has an interest in Headstart International Pty Limited. During the year the company purchased products on normal commercial terms. At 31 December 2007 the amount payable was $Nil (2006: $Nil).

Mr M Meydan had an interest in the following entities which either provided property on lease or acquired products from the company during the financial year:

Lucky Bay Pty Limited. Funtastic entered into a lease agreement to rent a warehouse and office building owned by this company. The lease agreement is based on normal terms and conditions and supported by independent valuation. At 31 December 2007 the amount payable was $Nil (2006: $ Nil).

Thornhills Pty Limited. Funtastic entered into a lease agreement to rent a warehouse and office building owned by this company. At 31 December 2007 the amount payable was $Nil (2006: $ Nil).

Vestito Pty Limited purchased clothing and apparel from Funtastic Limited. The purchases were on normal terms and conditions. At 31 December 2007 the amounts payable were $876,930 (2006: $1,886,742). Mr Meydan provided a guarantee in favour of Funtastic in relation to any debts incurred by Vestito Pty Limited up to and including 31 December 2007.

Aggregate amounts of each of the above types of other transactions with directors and director related entities are as follows:

	Consolidated		Company	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Company Secretarial Services	**67,707**	78,521	**67,707**	78,521
Rent of Office and Warehouse Buildings				
Lucky Bay Pty Limited	**858,754**	817,036	**858,754**	817,036
Thornhills Pty Limited	**88,037**	84,000	**88,037**	84,000
Hendy Properties Pty Limited (1)	**195,524**	118,930	**195,524**	118,930
	1,142,315	1,019,966	**1,142,315**	1,019,966
Purchase of products				
Headstart International Pty Limited	**18,827**	46,486	**18,827**	46,486
Sale of clothing and apparel				
Vestito Pty Limited	**3,029,555**	5,523,266	**3,029,555**	5,523,266
	3,029,555	5,523,266	**3,029,555**	5,523,266

(1) The amount payable to Hendy Properties includes $100,000 for cancellation of a lease

NOTE 40:	Remuneration of auditors

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Auditor of the parent entity				
Audit and review of the financial reports of the entity	**346,000**	328,000	**296,000**	168,000
Other services	**35,000**	-	**35,000**	-
	381,000	328,000	**296,000**	168,000
Related practice of the previous company auditor				
Other services including taxation services	**30,505**	-	**-**	-

The auditor of Funtastic Limited is Deloitte Touche Tohmatsu.

NOTE 41:	Subsequent events

On the 20 February 2008 Funtastic Limited announced the sale of its Publishing business unit to Parragon Publishing Limited, based in the United Kingdom.

The sale price has been struck at a premium to net assets with a profit on sale of approximately $5.5 million. The sale is expected to realise approximately $13 million in cash proceeds. These proceeds will be used to retire debt.

NOTE 42:	Contingent liabilities

The company has no material contingent liabilities that would require recognition or disclosure in the financial report.

Additional stock exchange information as at 1 March 2008

Distribution of equity securities

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

	Ordinary Shares		
Range	Holders	Options	Performance share rights
1 – 1,000	1,176	-	-
1,001 - 5,000	2,932	-	1
5,001 - 10,000	1,369	3	8
10,001 - 100,000	1,374	6	12
100,001 and over	89	4	-
	6,940	13	21

There are 2,729 shareholders holding less than a marketable parcel of ordinary shares.

Substantial holders

Substantial holders in the company are set out below:

	Shares	%
A.B.C Learning Centres Limited	32,924,639	19.99%
HSBC Custody Nominees (Australia) Limited	17,795,423	10.75%
Orbis MIS –Orbis / SM Australia Equity Fund	14,438,622	8.83%
Perpetual Ltd	11,443,610	7.00%
	76,602,294	46.57%

Additional stock exchange information as at 1 March 2008 (continued)

Twenty largest quoted equity security holders.

		Shares	%
1	A.B.C Learning Centres Limited	29,919,955	18.08
2	HBSC Custody Nominees (Australia) Limited	17,795,423	10.75
3	RBC Dexia Investor Services Australia Nominees Pty Limited <Pipooled A/c>	6,076,881	3.67
4	AMP Life Limited	5,669,229	3.43
5	NSR Toys Pty Ltd	5,500,742	3.32
6	Vincent Michael O' Sullivan	5,150,192	3.11
7	RBC Dexia Investor Services Australia Nominees Pty Limited	4,371,199	2.64
8	Mr David Graham Hendy + Mrs Suzanne Marie Hendy < Hendy Retire Fund- Fun A/c>	2,269,040	1.37
9	UBS Nominees Pty Ltd	2,145,710	1.30
10	Citicorp Nominees Pty Limited	2,083,370	1.26
11	National Nominees Limited	2,039,865	1.23
12	JP Morgan Nominees Australia Limited	2,010,459	1.21
13	Austock Nominees Pty Ltd <Custodian A/c>	1,714,314	1.04
14	Mr Vincent Michael O' Sullivan + Mrs Diane Marie O' Sullivan < the Trickster S/f A/c>	1,406,870	0.85
15	Mr Christopher Ian Wallin + Ms Fiona Kay Wallin <Chris Wallin Superfund A/c>	1,318,868	0.80
16	ABC Learning Centres limited	1,300,000	0.79
17	Mr Nir Pizmony + Mrs Maria Lutgarda Pizmony < Pizmony Family superfund A/c>	1,190,000	0.72
18	UBS Wealth management Australia Nominees	1,110,487	0.67
19	Tolmer Super Services Pty Ltd	1,100,000	0.66
20	Sino Pacific Resources SA	1,000,000	0.60
		95,172,604	**57.50%**

Unquoted equity securities

	Number on Issue	Number of holders
Options issued under the Funtastic Executive Share Option Plan	1,240,893	12
Performance share rights issued under the Funtastic Employee Performance Share Rights Plan	415,000	21
No person holds 20% or more of the above securities		
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