



19 February 2009

The Manager
Company Announcements Office
Australian Stock Exchange Limited
Level 4, Stock Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir

ASX Announcement – Funtastic announces capital raising and other initiatives

Attached is an announcement concerning capital raising and other initiatives.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'D J Berry', is written over the typed name.

D J Berry
Company Secretary

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ASX ANNOUNCEMENT

Funtastic announces capital raising and other initiatives

The Directors of Funtastic Limited today announced a number of initiatives as part of its ongoing restructuring program including:

- Intention to complete a \$22 million fully underwritten capital raising by way of an entitlement issue to eligible shareholders;
- The signing of a non-binding heads of agreement in relation to the potential acquisition of NSR (HK) Limited ("NSR") from interests associated with Nir Pizmony ("NSR Transaction"); and
- Senior management changes

Capital Raising

The proposed capital raising will be structured as an offer to eligible shareholders to acquire additional fully paid ordinary shares in the capital of the Company at 13.5 cents per share via a non-renounceable rights issue on the basis of one share for every share held at the record date ("Rights Issue"). The Rights Issue will be fully underwritten by interests associated with Craig Mathieson ("Mathieson") and represents a significant step in Funtastic's ongoing restructuring program. Proceeds from the Rights Issue will be applied to reduce debt and repair the balance sheet following the write downs announced earlier today.

The Rights Issue is subject to finalisation of underwriting arrangements and conditional on the finalisation of binding agreements in relation to the NSR Transaction. Whilst not strictly required, it is anticipated that shareholder approval of the underwriting arrangements will be sought at Funtastic's Annual General Meeting which is currently expected to be held on 14 May 2009.

Further details on the proposed Rights Issue, including full details of its structure and terms, will be forwarded in due course.

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Acquisition of NSR

Concurrent with the announcement of the proposed Rights Issue, Funtastic has entered into a non-binding heads of agreement for the purchase of all the shares in NSR (HK) Limited from interests associated with Nir Pizmony ("Pizmony"), a previous Director of Funtastic, which have provided the following details about NSR.

NSR is a Hong Kong based toy manufacturer which has built a global business through the design and manufacture of licensed and non-licensed products particularly in the novelty and role play segments. NSR currently holds market specific global licences including Ben 10, Bakugan, In the Night Garden and various Disney properties. In addition to this stable of licences, NSR has secured the global Master Toy Licence for Noddy from the beginning of 2009.

NSR has a focus on innovation, quality and creativity in key growth segments of the toy industry and provides Funtastic with the strategic levers to enhance product development, capitalise on licensing opportunities (particularly in the novelty area) and seek further global toy related opportunities.

NSR has direct international relationships with key retailers including TRU International, Costco, Wal-Mart, Carrefour and Tesco and distributes products across 25 countries. For the year ending 31 December 2009, NSR's budgeted sales revenue is \$15 million and it expects to contribute \$2 million in earnings before interest and tax.

The consideration for the NSR Transaction will be predominantly scrip based and will include:

- The issue of a minimum 10 million shares to the vendors at an issue price of \$0.135 at the time of completion of the transaction;
- The assumption by Funtastic of bank debt and the obligation to repay shareholder loans not exceeding \$5.65 million (with the repayment of the majority of the shareholder loans subject to minimum performance hurdles); and
- The balance of the consideration based on an earn out formula linked to the performance of NSR during the 2009 and 2010 years based on an EBIT multiple of 4.5 times for the 2009 year and 5.0 times for the 2010 year

As part of the NSR Transaction, it is intended that Mr Nir Pizmony will be appointed to the Board of Directors of Funtastic Limited.

The NSR Transaction is subject to completion of mutual due diligence acceptable to both Funtastic and the vendors of NSR, the entry into formal legal agreements, the provision of an Independent Expert Report opining that the proposed acquisition is in the best interests of shareholders and approval of Funtastic shareholders in general meeting. The NSR Transaction is also conditional on the completion of the underwritten Rights Issue.

The Underwriting and NSR Transaction are interdependent and involve the potential issue of shares to interests associated with Mathieson and Nir Pizmony. Mathieson and Pizmony are associates and substantial shareholders in Funtastic with a current ownership interest in Funtastic of 8.49%. Depending on shareholder take up under the Rights Issue and the extent of any underwritten shortfall, completion of the Rights Issue and NSR Transaction will potentially result in Mathieson and Pizmony increasing their combined shareholdings in Funtastic to greater than 20%. Accordingly the NSR Transaction will be subject to Funtastic shareholder approval which will be sought at the Annual General Meeting expected to be held on 14 May 2009.

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A notice of meeting together with a detailed explanatory memorandum explaining the proposed acquisition is expected to be sent to all shareholders following the completion of mutually satisfactory due diligence and once binding transaction documents have been entered into.

Senior management changes

In conjunction with the proposed Capital Raising and NSR Transaction, the Board has accepted the resignation of Mr Tony Oates as Managing Director of Funtastic effective immediately. Tony has been with Funtastic for more than six years and has been instrumental in the transformation of Funtastic from a niche toy distributor to a leading marketer and distributor of consumer branded lifestyle products. Tony has been very supportive of the capital raising and restructuring initiatives being undertaken by the Board following a number of challenging years for the company. The Board sincerely thanks Tony for his hard work and dedication during his time with the company.

Stewart Downs, previously Group General Manager of Toys and Sporting, has been appointed as the new Chief Executive Officer of Funtastic. Stewart was a leader of the team that turned around Mattel Australia into one of their best performing international subsidiaries and has been instrumental in the returning of Funtastic's Toys business to acceptable profitability in the 2008 year. He has vast domestic and international experience and is widely respected in the industry.

Subject to completion of the NSR Transaction and the underwritten Rights Issue, it is intended that Nir Pizmony will be appointed to a senior management position within Funtastic and also appointed to the Board of Directors. Mr Pizmony brings many years experience in the licensed toys industry and will provide valuable insights to the Board.

Commenting on the above initiatives, Funtastic Chairman Mr Graeme Yeomans said "the Board of Directors has been undertaking a strategic review for an extended period and the proposed capital raising represents a significant opportunity for Funtastic to improve its balance sheet at a time of considerable uncertainty in the global economy. The NSR Transaction, the Rights Issue and the reinvigoration of the Funtastic management team will enable the company to build on its key strategic platform of returning toys to acceptable profitability and provides Funtastic with the opportunity to expand its product range and expertise into international markets".

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