Notice of Annual General Meeting

Funtastic Limited ACN 063 886 199

Date:	Monday, 29 June 2009
Time:	10.00 a.m. (AEST)
Place:	RACV Club, Level 2, Bourke Rooms 1 & 2, 501 Bourke Street, Melbourne

Important notice

In this document you will find:

1. A letter from the Chairman.
2. Notice of Annual General Meeting.
3. Explanatory Notes containing an explanation of, and information about, the resolutions to be considered at the Annual General Meeting, including resolutions relating to the proposed acquisition by Funtastic of all of the issued shares in NSR (HK) Limited and an associated Rights Issue.
4. An independent expert's report on the proposed acquisition of all of the issued shares in NSR (HK) Limited and the Rights Issue.

A proxy form is enclosed with this document.

Shareholders should read this document in full.

This document is dated 27 May 2009.

funtastic LIMITED

27 May 2009

Dear Shareholder,

I am pleased to enclose a notice convening Funtastic's 2009 Annual General Meeting, together with a proxy form, explanatory notes and other supporting documents. This year's Annual General Meeting will be held on Monday, 29 June 2009 at the RACV Club, 501 Bourke Street, Level 2, Bourke Rooms 1& 2, Melbourne Victoria, commencing at 10.00 a.m. (AEST).

In addition to the items of ordinary business to be considered at this year's Annual General Meeting, there are three items of special business to be considered. The items of special business relate to the following two proposed transactions announced by Funtastic on 19 February 2009 and 18 May 2009:

- the proposed acquisition of NSR (HK) Limited (**NSR**) from interests associated with Mr Nir Pizmony (**Proposed Acquisition**); and
- a proposed rights issue to raise approximately $22.3 million (before costs), fully underwritten by entities associated with Mr Craig Mathieson (**Rights Issue**).

The Proposed Acquisition and the Rights Issue are collectively referred to in the enclosed explanatory notes as the **Proposed Transactions**.

As announced on 18 May 2009, Funtastic has entered into agreements for the Proposed Transactions, subject to the receipt of shareholder approval and the satisfaction of other conditions. If the Proposed Transactions are approved and implemented, Messrs Mathieson and Pizmony will join the Funtastic Board. Messrs Mathieson and Pizmony are regarded for present purposes as 'associates' of each other. There is a potential that following the Proposed Transactions, they may together hold interests in more than 20% of the issued share capital of Funtastic. Accordingly, the approval of Funtastic shareholders is required for the Proposed Transactions to proceed.

As you are aware, your company has suffered from the loss of business that followed the insolvency of ABC Learning Centres and also from poor trading from some of its non toy businesses. Your Board of Directors has been undertaking a strategic review for an extended period. Your Directors consider that:

- the proposed acquisition of NSR will enable Funtastic to build on its key strategic platform of returning its toys business to acceptable profitability, as well as providing your company with the opportunity to enhance product development, capitalise on licensing opportunities and seek further global toy related opportunities; and
- the proposed capital raising presents a significant opportunity for Funtastic to improve its balance sheet following significant write downs, at a time of considerable uncertainty in the global economy.

Your Directors unanimously endorse the Proposed Transactions and **recommend that Funtastic Shareholders vote in favour of the three resolutions** required to approve and implement the Proposed Transactions.

In forming this recommendation, your Directors have carefully considered:

- the results of Funtastic's due diligence and analysis of NSR;

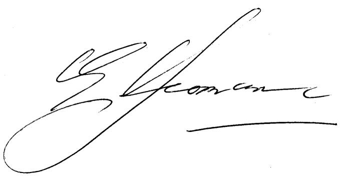
- the analysis of the commercial advantages and disadvantages associated with the Proposed Transactions;
- the strategic benefits from the acquisition of the NSR business, the potential merger synergies and the structure of the acquisition which reduces earnings risk for Funtastic;
- the alternative strategies available to Funtastic in pursuing its corporate objectives; and
- the opinion of the independent expert, BDO Kendalls, which is that the Proposed Transactions are both fair and reasonable and are in the best interests of Funtastic Shareholders.

Each of your Directors intends to vote all shares they hold or in which they otherwise have a relevant interest in favour of all the resolutions required to approve the Proposed Transactions.

The enclosed explanatory notes and BDO Kendall's independent expert's report contain full details of the Proposed Transactions. These materials will assist you in making an informed decision on how to vote at the Annual General Meeting. I encourage you to read the explanatory notes and the independent expert's report carefully and to vote at the Annual General Meeting, either in person or by proxy.

On behalf of the Funtastic Board, I commend the Proposed Transactions to you and would like to take this opportunity to thank you once again for your continued support of Funtastic during what has been a challenging 12 months.

Yours sincerely



Graeme Yeomans

Chairman

Questions & Answers

Set out below are summary answers to some key questions that Funtastic shareholders may have in relation to the Proposed Acquisition and the Rights Issue to which the resolutions in Items 5, 6 and 7 relate.

The summary answers below do not address all issues that are likely to be relevant to Funtastic shareholders. Accordingly, the Questions and Answers below should be read together with the more detailed information provided in the Notice of Annual General Meeting, the Explanatory Notes and the Independent Expert's Report. Capitalised terms in the Questions and Answers below are defined in the Explanatory Notes.

The Proposed Acquisition – Your Questions Answered

	Question	Answer
1	**What is the Proposed Acquisition?**	The Proposed Acquisition involves Funtastic acquiring 100% of the shares in NSR. NSR is a Hong Kong based designer and developer of licensed and non-licensed toys. NSR holds the global Master Toy Licence for *Noddy* as well as a number of market-specific licences including *Ben 10*, *In the Night Garden*, *Bakugan* and various Disney properties. NSR is majority owned by an entity associated with Mr Nir Pizmony who is a former director and executive of Funtastic.
2	**What is the rationale for the Proposed Acquisition?**	NSR has considerable expertise and experience with global master toys licences and in manufacturing and sourcing. The Board believes that the combination of NSR's experience in securing global master toys licences combined with Funtastic's distribution capability should enhance the ability of the combined business to potentially secure further global licences. It is also expected that potential synergies will be realised through the integration of Funtastic's international business and through reduced product sourcing costs as a result of NSR's manufacturing and sourcing expertise. The combination of these factors is expected to lead to enhanced returns for shareholders.
3	**How will the Proposed Acquisition be funded?**	The Proposed Acquisition will be funded predominantly through 10 million new Funtastic converting shares to be issued to the Vendors and the assumption of debt (bank debt and related party loans). The converting shares will convert to ordinary shares at the end of the first and second earn – out periods. The ultimate number of shares issued to the Vendors on conversion of the converting shares will be determined by reference to the earnings of NSR during the period up to the end of 2010, by application of an earn-out formula. The minimum number of ordinary shares into which the converting shares to be issued to the Vendors will convert will be 10 million and the maximum

		number is 50 million. The Vendors may receive an additional cash amount, in aggregate, of up to A$5 million if the financial performance of NSR is such that the 50 million share cap is exceeded. As part of the Proposed Acquisition, NSR (which will be a wholly owned subsidiary of Funtastic from completion) will remain obliged to repay bank debt and related party loans. These debts include amounts currently owing by NSR to NSR Peas Pty Ltd, one of the Vendors. Repayment of the related party loans is subject to the performance of NSR, with the exception of $650,000 to be repaid on 1 July 2009 and approximately $666,250 (including interest to the date of repayment) to be repaid on 1 January 2010.
4	**What are the Converting Shares and how do they work?**	Funtastic will issue 10 million Converting Shares with an issue price of $0.135 per share (net value $1.35 million) to the Vendors at completion. Converting Shares carry the same rights as existing ordinary shares in the Company (except for the terms relating to the earn-out formula and conversion mechanics, and some special arrangements that apply in the case of a friendly takeover bid or a scheme of arrangement) and will convert to a minimum of 10 million ordinary shares at the end of the earn-out period. Converting Shares may convert to more than 10 million ordinary shares, depending on NSR's financial performance during the earn-out period, to be determined under an earn-out formula, up to a maximum of 50 million ordinary shares.
5	**How was the value of the shares to be issued as consideration determined?**	The issue price of $0.135 for each of the Converting Shares is the same value applying to ordinary shares to be issued under the one for one pro rata non-renounceable Rights Issue. This will also be the issue price for any shares to be issued in relation to the 2009 earn out period. The issue price for any shares to be issued in relation to the 2010 earn-out period will be $0.20 per share. This represents a 48.1% premium to the issue price for the 10 million Converting Shares and the issue price under the Rights Issue. The Directors of Funtastic consider that this premium represents an appropriate benchmark for the purpose of the determination of the number of shares to be issued in respect of the 2010 earn-out period. By agreeing to set the issue price at this level, the Vendors are also demonstrating their belief in and commitment to Funtastic and its business going forward.
6	**Will my shareholding be affected?**	The number of shares you currently hold will not be affected by the Proposed Acquisition. However, the Proposed Acquisition involves the issue of shares to the current owners of NSR which will lead to a dilution in the percentage of Funtastic's total issued share capital which you currently own. Simultaneously with the Proposed Acquisition, Funtastic will be undertaking a one for one pro rata non-renounceable Rights Issue. To the extent that you do not fully participate in the Rights Issue your shareholding in Funtastic will be diluted.

7	**Are there any conditions to the Proposed Acquisition completing?**	Yes. The terms of the transaction are set out in a Share Sale Agreement which includes a number of conditions precedent including: • approval of the resolution to acquire NSR by Funtastic shareholders; • approval of the resolution to conduct the Rights Issue (including approval of the underwriting arrangements) by Funtastic shareholders; • Funtastic being satisfied that the financial performance of NSR (HK) for the year ended 31 December 2008 meets a threshold EBIT of at least A$500,000 (subject to various adjustments) (at an agreed exchange rate of US$0.65 to A$1.00); • obtaining confirmation from various counterparties to key contracts entered into by NSR that they will not terminate those contracts as a result of Funtastic acquiring NSR; and • National Australia Bank rolling over Funtastic's financing facilities on terms acceptable to Funtastic and the vendors.
8	**When is the Proposed Acquisition expected to complete?**	The transaction is expected to complete in mid-August 2009 but with an effective date under the contract of 30 June 2009. This means that if completion occurs, Funtastic will assume all of the profits, losses, benefits, risks and obligations of NSR's business from 30 June 2009.
9	**Will the Proposed Acquisition result in changes to the Board?**	If the Proposed Acquisition is approved, Mr Pizmony will be offered a senior executive position with Funtastic and he will be appointed as a Director from completion of the Proposed Acquisition. He will also remain a director of NSR.
10	**What will happen if shareholders do not approve the Proposed Acquisition?**	The Proposed Acquisition and the Rights Issue are interdependent. If the resolutions relating to the Proposed Acquisition and the Rights Issue are not approved by Funtastic shareholders, the Proposed Acquisition will not proceed and Funtastic will continue to operate in its current form. In addition to having incurred costs associated with the Proposed Acquisition, shareholders should be aware of the possible longer term implications of the Proposed Acquisition and the Rights Issue not being approved, including: • Funtastic's business would remain domestically focused and therefore growth opportunities may be more limited than those expected to be available if the Proposed Acquisition proceeds; • the estimated $22.3 million proceeds (before costs) from the Rights Issue would not be received and Funtastic would continue to operate within the constraints of its banking facilities;

		• Funtastic may not be in a position to undertake a capital raising on the same terms and conditions as currently proposed (including securing an underwriter) if additional capital is required by the Company; and • it is likely that Funtastic's earnings in the period ending 31 December 2009 and subsequent years will be lower than they would be if the Proposed Acquisition proceeded.
11	**Will the Vendors be entitled to vote on the resolution to approve the Proposed Acquisition?**	No. Neither the Vendors nor any of their associates (including the Underwriter for the Rights Issue and entities associated with Mr Craig Mathieson) will be entitled to vote on the resolution to approve the Proposed Acquisition.
12	**Are there any potential disadvantages associated with the Proposed Acquisition proceeding?**	Yes. Please refer to page 28 of the Explanatory Notes for an outline of the possible disadvantages and risks. However, your Directors consider that the expected advantages of the Proposed Acquisition outweigh the possible disadvantages and risks.
13	**What do the Directors recommend that I do?**	Your Directors unanimously recommend that you vote in favour of the resolutions in Items 5 and 6 to approve the Proposed Acquisition. Each Director who holds shares intends to vote all of those shares in favour of these resolutions. The Chair of the Meeting intends to vote undirected proxies in favour of each of the resolutions relating to the Proposed Acquisition.
14	**What is the opinion of the Independent Expert?**	The Independent Expert has concluded that the Proposed Acquisition is fair and reasonable to the non-associated shareholders of Funtastic. A full copy of the Independent Expert's Report is set out in Annexure 2.

The Rights Issue – Your Questions Answered

	Question	Answer
1	**What is the Rights Issue?**	Funtastic proposes to conduct a one for one pro rata non-renounceable offer of new ordinary shares at an issue price of A$0.135 per share to raise approximately A$22.3 million. Eligible Funtastic shareholders will be entitled to subscribe for one New Share for each Funtastic share they already hold at an issue price of A$0.135 per share.
2	**Why is the Rights Issue being proposed?**	The proceeds from the Rights Issue (after payment of associated costs) will be used by Funtastic to pay down debt and for working capital.

3	**How does the Rights Issue relate to the Proposed Acquisition?**	The Proposed Acquisition and the Rights Issue are inter-conditional, meaning that each transaction will only proceed if the other transaction also proceeds. If either transaction is not approved by shareholders, or otherwise does not complete, the other transaction will not complete either. Each transaction is subject to a number of conditions precedent summarised in more detail in the Explanatory Notes.
4	**When will the Rights Issue be conducted?**	If the resolutions to approve the Proposed Acquisition and the Rights Issue are passed by shareholders, Funtastic intends to lodge the offer documents for the Rights Issue with ASX shortly after the Annual General Meeting. Shareholders will receive in the mail information about the Rights Issue, including their individual entitlements to subscribe for new shares, shortly after the Annual General Meeting.
5	**What will happen if shareholders do not pass the resolution to approve the Rights Issue?**	The Proposed Acquisition and the Rights Issue are interdependent. If the resolutions relating to the Proposed Acquisition and the Rights Issue are not approved by Funtastic shareholders, the Proposed Acquisition will not proceed and Funtastic will continue to operate in its current form. The estimated $22.3 million proceeds (before costs) from the Rights Issue would not be received and Funtastic would continue to operate within the constraints of its existing banking facilities.
6	**How will my shareholding be affected?**	If you do not accept your full entitlement to subscribe for new shares under the Rights Issue, your shareholding in Funtastic will be diluted. If you do accept your full entitlement to subscribe for new shares in the Rights Issue, the number of shares in Funtastic that you hold will increase but will represent approximately the same percentage of all issued Funtastic shares as you held before the Rights Issue (excluding the effect on your shareholding of the issue of shares in connection with the Proposed Acquisition).
7	**Is the Rights Issue underwritten?**	Yes. The Rights Issue will be fully underwritten by Elsie May Holdings, an entity associated with Mr Craig Mathieson. Full details of the underwriting arrangements are provided in the Explanatory Notes.
8	**What happens if the Rights Issue is not fully subscribed?**	The Directors intend to employ a shortfall facility under which up to 10,000,000 new shares may be offered to certain eligible officers of Funtastic, being people to whom new shares can be offered without a disclosure document. Any remaining shortfall will be subscribed for by the underwriter (subject to the underwriting agreement not being terminated).
9	**Will I be able to sell my rights rather than subscribe for new shares?**	No. The Rights Issue is non-renounceable, meaning that your rights cannot be traded. If you do not accept your entitlement to subscribe for new shares you will not obtain any value from your entitlement, and your shareholding will be diluted.

10	**Will the Rights Issue result in changes to the Board?**	If the Rights Issue and the underwriting arrangements proceed in their proposed form, it is intended that Mr Craig Mathieson will be appointed as a Director on completion of the Rights Issue. The Rights Issue is expected to be completed in mid-August 2009.
11	**Will the Underwriter be entitled to vote on the resolution to approve the Rights Issue and the underwriting arrangements?**	No. Neither the Underwriter (Elsie May Holdings) nor any of its associates (including the Vendors of NSR) will be entitled to vote in favour of the resolution to approve the Rights Issue and the underwriting arrangements.
12	**Are there any potential disadvantages associated with the Rights Issue and the underwriting arrangements proceeding?**	Yes. Please refer to page 28 of the Explanatory Notes for an outline of the possible disadvantages and risks. However, your Directors consider that the expected advantages of the Rights Issue and the underwriting arrangements outweigh the possible disadvantages and risks.
13	**What do the Directors recommend that I do?**	Your Directors unanimously recommend that you vote in favour of the resolution in Item 7 relating to the Rights Issue and the underwriting arrangements. All Funtastic Directors who hold shares intend to vote their shares in favour of this resolution. The Chair of the Meeting intends to vote undirected proxies in favour of the resolution relating to the Rights Issue and underwriting arrangements.
14	**What is the opinion of the Independent Expert**	The Independent Expert has concluded that the Rights Issue, including the underwriting arrangements, are fair and reasonable to the non-associated shareholders of Funtastic. A full copy of the Independent Expert's Report is set out in **Annexure 2**.

Notice of Annual General Meeting

Notice is given that the ninth annual general meeting of shareholders of Funtastic Limited ACN 063 886 199 (**Funtastic** or **the Company**) will be held on Monday, 29 June 2009 at the RACV Club, Level 2, Bourke Rooms 1 & 2, 501 Bourke Street, Melbourne, Victoria commencing at 10.00 a.m. (AEST).

Ordinary Business

1. Financial statements and reports

To receive and consider:

(a) the financial statements;

(b) the Directors' report; and

(c) the auditor's report,

in respect of the year ended 31 December 2008.

2. Remuneration Report

To consider and, if thought fit, to pass the following resolution:

'That the Remuneration Report for the Company (included in the Directors' Report on pages 21 to 32 of the 2008 Annual Report) for the year ended 31 December 2008 be adopted.'

Please note that the vote on this resolution is advisory only and does not bind the Directors or the Company.

3. Election of Director, Shane Tanner

To consider and, if thought fit, to pass the following resolution:

'That Shane Tanner, a Director appointed in accordance with Rule 35(a) of the Constitution, and being eligible for election pursuant to Rule 35(b) of the Constitution, is elected as a Director of Funtastic.'

4. Re-election of Directors

(a) Re-election of Director, Graeme Yeomans

To consider and, if thought fit, to pass the following resolution:

'That Graeme Yeomans, a Director retiring in accordance with Rule 35(c) of the Constitution, and being eligible, is re-elected as a Director of Funtastic.'

(b) Re-election of Director, David Berry

To consider and, if thought fit, to pass the following resolution:

'That David Berry, a Director retiring in accordance with Rule 35(c) of the Constitution, and being eligible, is re-elected as a Director of Funtastic.'

Special Business

5. Proposed Acquisition of NSR

To consider and, if thought fit, to pass the following resolution:

'That, for the purposes of Rule 10.1 of the Listing Rules of ASX Limited and section 611 Item 7 of the Corporations Act 2001 (Cth) and for all other purposes, and subject to the approval of the resolutions in Items 6 and 7, approval is given for the Company to:

*(i) acquire all of the issued shares in NSR (HK) Limited from NSR Peas Pty Ltd (**NSR Peas**) and Mr Hod Pizem (**Hod Pizem**) (**Proposed Acquisition**); and*

(ii) issue to NSR Peas and Hod Pizem the consideration in respect of the Proposed Acquisition, comprising in aggregate, 10,000,000 Converting Shares in the Company convertible into a minimum of 10,000,000, and up to a maximum of 50,000,000, ordinary shares in the Company, the acquisition of which Converting Shares and ordinary shares by their conversion by NSR Peas and Hod Pizem is by force of this resolution approved for those purposes,

in each case on the terms set out in the Share Sale Agreement dated 16 May 2009, as described in the Explanatory Notes to this Notice of Annual General Meeting.'

6. Amendment to Constitution

To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution:

'That, pursuant to section 136(2) of the Corporations Act 2001 (Cth), and subject to the approval of the resolutions in Items 5 and 7, approval is given to the amendments to the Constitution, described in the Explanatory Notes to this Notice of Annual General Meeting and set out in Appendix 1 attached to this Notice of Annual General Meeting, with effect from the close of the meeting.'

7. Rights Issue and underwriting arrangements

To consider and, if thought fit, to pass the following resolution:

'That, subject to the approval of the resolutions in Items 5 and 6, approval is given for the Company to conduct a fully underwritten one for one pro rata non-renounceable Rights Issue to raise approximately A$22.3 million on the terms of the Underwriting Agreement dated 16 May 2009 between the Company and Elsie May Holdings Pty Ltd and otherwise on the terms set out in

the Explanatory Notes to this Notice of Annual General Meeting and that, without limiting the foregoing, approval is given for the purposes of section 611 Item 7 of the Corporations Act 2001 (Cth) for the acquisition by Elsie May Holdings Pty Ltd of shares in the Company resulting from the issue of any new shares to it under the Underwriting Agreement, as further described in the Explanatory Notes.'

8. Other business

To transact any other business which may legally be brought before the meeting.

By order of the Board

Date 27 May 2009

Signed

Name David Berry
Company Secretary

Explanatory notes for the Annual General Meeting

General

- Capitalised words and phrases contained in this Notice of Annual General Meeting (including the proposed resolutions) have the same meaning as set out in the Explanatory Notes.
- This notice should be read in conjunction with the accompanying Explanatory Notes. The Explanatory Notes contains important information to assist you in determining how to vote on the proposed resolutions.

Voting entitlements

- Each person who is registered on the Funtastic Share Register as the holder of Funtastic Shares at 7.00 pm (AEST) on Saturday, 27 June 2009 is entitled to attend and vote at the Annual General Meeting, either in person, by proxy or attorney or, in the case of a corporate Funtastic Shareholder, by a personal representative.

Voting restrictions

- For the purpose of Listing Rule 10.1, Funtastic will disregard any votes cast on the resolution in Item 5 (Proposed Acquisition of NSR) by the Vendors or any of their associates including Elsie May Holdings and entities associated with Mr Craig Mathieson and any other person who might obtain a benefit, except a benefit solely in the capacity of a holder of securities, if the resolution is passed.
- For the purpose of section 611, Item 7 of the *Corporations Act 2001* (Cth), the Company will disregard any votes cast in favour of the resolution in Item 7 (Rights Issue and underwriting arrangements) by Elsie May Holdings or any of its associates, including the Vendors.
- However, to the extent permitted by law, Funtastic need not disregard a vote if:
  - it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
  - it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Required voting majorities

In accordance with the *Corporations Act 2001 (Cth)*, the resolutions at this meeting are proposed as ordinary resolutions and special resolutions.

- The ordinary resolutions are:
  - ❑ Item 2 – Remuneration Report
  - ❑ Item 3 – Election of Shane Tanner
  - ❑ Item 4(a) – Re-election of Graeme Yeomans

- Item 4(b) – Re-election of David Berry
- Item 5 – Proposed Acquisition of NSR
- Item 7 – Rights Issue and underwriting arrangements

- The passage of these resolutions requires the approval of more than 50% of votes cast by Funtastic Shareholders present and voting at the Annual General Meeting, whether in person, by proxy or attorney or, in the case of a corporate Funtastic Shareholder or proxy, by a natural person representative.
- The only resolution proposed as a special resolution is Item 6 – Amendment to constitution. The passage of this resolution requires the approval of at least 75% of votes cast by Funtastic Shareholders present and voting at the Annual General Meeting, whether in person, by proxy or attorney or, in the case of a corporate Funtastic Shareholder or proxy, by a natural person representative.

How to vote

Funtastic Shareholders entitled to vote at the Annual General Meeting may vote:

- by attending the meeting and voting in person; or
- by appointing an attorney to attend the meeting and vote on their behalf, or, in the case of corporate shareholders or proxies, a corporate representative to attend the meeting and vote on its behalf; or
- by appointing a proxy to attend and vote on their behalf, using the proxy form accompanying this Notice. A proxy may be an individual or a body corporate.

Voting in person (or by attorney)

- Funtastic Shareholders or their proxies, attorneys or representatives (including representatives of corporate proxies) wishing to vote in person should attend the Annual General Meeting and bring a form of personal identification (such as your driver's licence).
- To vote by attorney at this meeting, the original or a certified copy of the power of attorney or other authority (if any) under which the instrument is signed must be received by the Funtastic Share Registry by 10.00am on Saturday, 27 June 2009 in any of the following ways:

By post in the reply paid envelope provided to the Funtastic Share Registry:

Computershare Investor Services Pty Limited
GPO Box 242
MELBOURNE VIC 3001
Fax number: within Australia 1800 783 447 or (outside Australia) +61 3 9473 2555

By hand delivery to the Funtastic Share Registry at:

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067

- To vote in person, you or your proxy, attorney, representative or corporate proxy representative must attend the Annual General Meeting to be held on Monday, 29 June 2009 at the RACV Club, Level 2, Bourke Rooms 1 & 2, 501 Bourke Street, Melbourne Victoria commencing at 10.00 a.m. (AEST).
- A vote cast in accordance with the appointment of a proxy or power of attorney is valid even if before the vote was cast the appointor:
  - died;
  - became mentally incapacitated;
  - revoked the proxy or power; or
  - transferred the Funtastic Shares in respect of which the vote was cast,

  unless Funtastic received written notification of the death, mental incapacity, revocation or transfer before the meeting or adjourned meeting.

Voting by proxy

- Funtastic Shareholders wishing to vote by proxy at this meeting must:
  - complete and sign or validly authenticate the enclosed proxy form; and
  - deliver the signed and completed proxy form by 10.00am on Saturday, 27 June 2009 in accordance with the instructions below.
- A person appointed as a proxy may be an individual or a body corporate.
- An electronic authentication of an appointment of proxy must include a method of identifying the appointing Funtastic Shareholder and an indication of their approval of the information communicated.

Submitting proxy votes

- Funtastic Shareholders wishing to submit proxy votes for the Annual General Meeting must return the enclosed proxy form to Funtastic in any of the following ways:

  By post in the reply paid envelope provided to the Funtastic Share Registry:

  Computershare Investor Services Pty Limited
  GPO Box 242
  MELBOURNE VIC 3001

  By hand delivery to the Funtastic Share Registry at:

  Computershare Investor Services Pty Limited
  Yarra Falls
  452 Johnston Street
  Abbotsford VIC

  By fax to the Funtastic Share Registry on (within Australia) 1800 783 447 or (outside Australia) +61 3 9473 2555

  Note: proxies may not be returned by email, nor is internet based voting possible.

Notes for proxy appointments

- A Funtastic Shareholder entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote at the meeting on that Funtastic Shareholder's behalf.
- A proxy need not be a Funtastic Shareholder.
- A proxy may be an individual or a body corporate. A proxy that is a body corporate may appoint a representative to exercise the powers that the body corporate may exercise as the Funtastic Shareholder's proxy.
- If a Funtastic Shareholder appoints two proxies and the appointment does not specify the proportion or number of the Funtastic Shareholder's votes each proxy may exercise, each proxy may exercise half the votes.
- A proxy may vote or abstain as he or she chooses except where the appointment of the proxy directs the way the proxy is to vote on a particular resolution. If an appointment directs the way the proxy is to vote on a particular resolution:
  - if the proxy is the chair – the proxy must vote on a poll and must vote in the way directed; and
  - if the proxy is not the chair – the proxy need not vote on a poll, but if the proxy does so, the proxy must vote in the way directed.
- If a proxy appointment is signed or validly authenticated by the Funtastic Shareholder but does not name the proxy or proxies in whose favour it is given, the chairman may either act as proxy or complete the proxy appointment by inserting the name or names of one of more Directors or the Company secretary.

- If:
  - a Funtastic Shareholder nominates the chairman of the meeting as the Funtastic Shareholder's proxy; or
  - the chairman is to act as proxy if a proxy appointment is signed by a Funtastic Shareholder but does not name the proxies in whose favour it is given or otherwise under a default appointment according to the terms of the proxy form,

  then the person acting as chairman in respect of an item of business at the meeting must act as proxy under the appointment in respect of that item of business.
- Proxy appointments in favour of the chairman of the meeting, the secretary or any Director which do not contain a direction will be voted in support of the resolutions.

Voting by corporate representatives

- To vote in person at the Annual General Meeting, a Funtastic Shareholder or proxy which is a body corporate may appoint an individual to act as its representative.
- To vote by corporate representative at the meeting, a corporate Funtastic Shareholder should obtain an appointment of corporate representative form from Funtastic, complete and sign the form in accordance with the instructions on it. The appointment should be lodged at the registration desk on the day of the meeting.
- The appointment of a representative may set out restrictions on the representative's powers.
- The original form of appointment of a representative, a certified copy of the appointment, or a certificate of the body corporate evidencing the appointment of a representative is prima facie evidence of a representative having been appointed.
- The chairman of the meeting may permit a person claiming to be a representative to exercise the body's powers even if he or she has not produced a certificate or other satisfactory evidence of his or her appointment.

Explanatory Notes – Ordinary Business

These Explanatory Notes are intended to provide shareholders of Funtastic with information to assess the merits of the proposed resolutions designated as items of Ordinary Business in the enclosed Notice of Annual General Meeting.

The Directors recommend that shareholders read these Explanatory Notes in full before making any decision in relation to the resolutions.

1. Financial statements and reports

The *Corporations Act 2001* (Cth) (**Corporations Act**) requires the financial report (which includes the financial statements and Directors' declaration), the Directors' report and auditor's report to be laid before the Annual General Meeting. There is no requirement either in the Corporations Act or the Constitution for shareholders to approve the financial report, the Directors' report or the auditor's report. Shareholders will be given a reasonable opportunity at the meeting to ask questions and make comments on these reports, and on the business and operations of Funtastic.

The financial report and the Directors' and auditor's reports relate to the year ended 31 December 2008.

Shareholders may submit written questions to the auditor, Deloitte Touche Tohmatsu (**Deloitte**), to be answered at the meeting, provided that the questions are relevant to Deloitte's audit report or the conduct of its audit of the Company's financial report for the year ended 31 December 2008.

Written questions must be received by no later than 5.00pm (Melbourne time) on 22 June 2009. A list of qualifying questions will be made available to shareholders at the meeting.

Any written questions to Deloitte can be sent to the Company at 635 Waverley Road, Glen Waverley, Victoria 3150.

2. Remuneration report

As required by the Corporations Act, the Board is presenting the Company's Remuneration Report to shareholders for consideration and adoption by a non-binding vote.

The Remuneration Report is included in the Directors report and set out on pages 21 to 32 of the 2008 Annual Report. It is also available from the Company's website (www.funtastic.com.au)

The Remuneration Report:

- describes the policies behind, and structure of, the remuneration arrangements of the Company and the link between the remuneration of employees and the Company's performance;
- sets out the remuneration arrangements in place for each Director and for specified senior executives of the Company; and
- explains the difference between the basis for remunerating non-executive Directors and executives, including executive Directors.

The vote on this resolution is advisory only and does not bind the Directors or the Company. However, the Board will take the outcome of the vote into consideration when reviewing the remuneration practices and policies of Funtastic.

Shareholders will be given the opportunity to ask questions and to make comments on the Remuneration Report.

The Board unanimously recommends that shareholders vote in favour of adopting the Remuneration Report.

3. Election of Director

Mr Shane Tanner was appointed as a Director on 19 March 2009. In accordance with Rule 35(b) of the Constitution, Mr Tanner offers himself for election as a Director.

Mr Tanner has been a director of a number of companies, was Chairman of ASX listed Sterihealth Limited, and is currently the Chairman of the ASX listed companies, Vision Group Holdings Limited and Paragon Care Limited and has previously held senior executive roles with the Mayne Nickless Group. He is a member of the Audit, Risk and Compliance, the Remuneration and Evaluation and the Nomination Committees.

The Directors (other than Mr Tanner) recommend that shareholders vote in favour of the resolution in Item 3.

4. Re-election of Directors

(a) **Mr Graeme Yeomans, Chairman**

The Directors (other than Mr Yeomans) recommend that shareholders vote in favour of the resolution in Item 4(a).

Graeme Yeomans was appointed as interim non executive Chairman on 24 September 2008. Prior to joining the Board in September 2007, he was Chief Executive Officer of Repco Limited and was for many years the managing director of Associated Retailers Limited (ARL). He has extensive experience in the retail and wholesale industry. He was recently a director of the ASX listed company Sterihealth Limited.

Graeme is a member of the Audit, Risk and Compliance, the Remuneration and Evaluation and the Nomination Committees.

(b) **Mr David Berry, Non-Executive Director and Company Secretary**

The Directors (other than Mr Berry) recommend that shareholders vote in favour of the resolution in Item 4(b).

David Berry was appointed a non executive director in September 2000. He is a chartered accountant and until recently was a partner of a public accounting practice. He serves as the company secretary and has considerable knowledge and experience in financial and taxation matters, particularly in respect to the wholesale industry.

David is chairman of the Audit, Risk and Compliance Committee, and is a member of the Nomination Committee.

Explanatory Notes – Special Business

These Explanatory Notes are intended to provide shareholders of Funtastic with information to assess the merits of the proposed resolutions designated as items of Special Business in the enclosed Notice of Annual General Meeting.

The Directors recommend that shareholders read these Explanatory Notes in full before making any decision in relation to those resolutions.

Summary of Proposed Transactions – Items 5, 6 and 7

Introduction

Funtastic proposes to acquire all of the shares in NSR (HK) Limited (**NSR**) (**Proposed Acquisition**) from NSR Peas Pty Ltd (as to 60%) and Mr Hod Pizem (as to 40%) (the **Vendors**), subject to shareholder approval. The resolutions in Items 5 and 6 in the Notice of Annual General Meeting relate to the Proposed Acquisition.

Concurrently with the Proposed Acquisition, Funtastic proposes to conduct a one for one pro rata non-renounceable rights issue of new ordinary shares at an issue price of A$0.135 per share, to raise approximately A$22.3 million (**Rights Issue**). The proceeds from the Rights Issue (after payment of associated costs) will be used by Funtastic to pay down debt and for working capital. The resolution in Item 7 of the Notice of Annual General Meeting relates to the Rights Issue and underwriting arrangements.

The Proposed Acquisition and the Rights Issue are each conditional on the other, meaning that each transaction will only proceed if the other transaction also proceeds. If either transaction is not approved by shareholders, or otherwise does not complete, the other transaction will not complete either. Each transaction is subject to a number of conditions precedent summarised in the more detailed information provided below.

Summary of Proposed Acquisition

Overview of NSR

NSR is a Hong Kong-based company involved in the design and manufacture of licensed and non-licensed toys and various other children's products. NSR holds the global Master Toy Licence for Noddy (as of the start of 2008) and holds a number of market-specific licences including Ben 10, In the Night Garden, Bakugan and various Disney properties. In addition, NSR has international relationships with a number of major retailers including Wal-Mart, Carrefour and Tesco.

On completion of the Proposed Acquisition (**Completion**), NSR will be a wholly-owned subsidiary of Funtastic and it is intended that Mr Pizmony will be offered a senior executive position with Funtastic and be appointed as a director of the Company. Mr Nir Pizmony has many years' experience in the areas of manufacturing, marketing and distribution in the licensed toys industry on a global basis. Your Directors believe that he will be well placed to provide valuable insights on the industry to the Board of Funtastic.

On 19 February 2009, Funtastic disclosed to the ASX that NSR is expected to contribute A$2 million in earnings before interest and tax (**EBIT**) in the year ending 31 December 2009. NSR's current forecast for the year ending 31 December 2009 remains at or slightly above these levels, with significant sales and EBIT contribution expected in the July to December period.

The Directors believe that the Proposed Acquisition will benefit the Company:

- by providing significant expansion opportunity through the acquisition of valuable toy licences and the benefit of NSR's established distribution channels and sales and marketing expertise in the important markets outlined above;
- by enhancing the Company's ability to win additional global master toy licences such as the Noddy licence, and by combining NSR's experience at winning global master toy licences with Funtastic's delivery capability;
- through the acquisition of NSR's intellectual property in the form of research and development and moulding and tooling for the production of licensed toys; and
- by achieving synergies through utilising Funtastic's existing distribution channels; integrating Funtastic's international business with NSR and potential synergies in relation to product sourcing and cost saving in relation to manufacturing activities.

Key elements of the Proposed Acquisition

The Proposed Acquisition is on the terms and conditions set out in a share sale agreement dated 16 May 2009 between Funtastic as purchaser and NSR Peas Pty Ltd and Mr Hod Pizem as vendors (**Sale Agreement**).

The Sale Agreement provides for Funtastic to acquire 100% of the issued share capital of NSR from the vendors. The Sale Agreement is expected to complete in mid-August 2009 but with an effective date of 30 June 2009. This means that if Completion occurs, Funtastic will assume all of the profits, losses, benefits, risks and obligations of the business conducted by NSR from 30 June 2009, as if Completion had occurred on that date.

NSR, as a wholly owned subsidiary of Funtastic, will remain responsible for the repayment of bank debt owing to the Hongkong and Shanghai Banking Corporation Limited (**Bank Debt**) and related party loans which are currently owing by NSR to NSR Peas Pty Ltd (**Vendor Loans**). The value of the Bank Debt and Vendor Loans in aggregate is expected to be not more than US$4.91 million at Completion.

The consideration payable by Funtastic to the Vendors at Completion will be in the form of securities in the Company. The number of securities to be issued will be determined by reference to the earnings of NSR during the period up to the end of 2010, applying an earn-out formula. The securities to be issued to the Vendors on Completion are 10,000,000 Converting Shares (at an issue price of A$0.135 per share), which will entitle the holders to be issued with a number of ordinary shares in the Company to be determined based on NSR's financial performance during the relevant earn-out period. Further information on the terms of issue of the Converting Shares is set out below.

The earn-out formula to be applied for the financial performance of NSR during the 2009 year is based on an EBIT (earnings before interest and tax) multiple of 4.5 and an issue price of the shares to be issued of A$0.135 per share. The earn-out formula to be applied for the financial performance of NSR during the 2010 year is based on an EBIT multiple of 5.0 and issue price of the shares to be issued of A$0.20 per share. As the earn-out period extends over two years, the actual EBIT multiple to be used in determining the number of shares (if any) to be issued to the Vendors for the 2009 year is 2.25 (i.e., 50% of 4.5), and the actual multiple to be used in determining the number of shares (if any) to be issued to the Vendors for the 2010 year is 2.50 (i.e., 50% of 5.0).

The maximum number of ordinary shares that the Vendors may receive for both earn-out periods is capped at a total of 50,000,000 ordinary shares including the 10,000,000 ordinary shares into which the 10,000,000 Converting Shares to be issued at Completion will be converted regardless of the financial performance of NSR. If the financial performance of NSR is such that the Vendors would, based on the relevant earn-out formulae, be entitled to receive consideration equal in value to an amount greater than the value of the maximum number of ordinary shares that may be issued, the Company will pay that additional amount in cash up to a maximum amount of A$5,000,000.

A summary of the key pricing and consideration terms on an enterprise value basis is outlined below. This summary is for illustrative purposes only as it is based on various assumptions including the value of Bank Debt and Vendor Loans at Completion and the expected financial performance of NSR in the 2009 and 2010 years.

Consideration	**A$m**	**Shares issued (millions)**
10 million Funtastic shares at a deemed value of $0.135	$1.35	10.0
Bank Debt / Vendor Loans[1]	$7.55	
Deferred consideration[2]	$3.16	20.47
Total consideration	$12.06	30.47

[1] Repayment of Vendor Loans is subject to the performance of NSR with the exception of $650,000 to be repaid on Completion and approximately $666,250 (including interest to the date of repayment) to be repaid on 1 January 2010.

[2] Assumes EBIT for 2009 and 2010 earn-out period of $2.539m (refer table 27 of independent expert's report).

The A$ figures above are dependent on fluctuations in the A$:US$ exchange rate. Paragraph 187 of the independent expert's report prepared by BDO Kendalls Securities (NSW – Vic) Pty Ltd (**BDO**) (**Independent Expert's Report**) includes an analysis of the impact of foreign currency movements on the proposed transaction.

Terms of Converting Shares

Funtastic will apply for quotation of the Converting Shares on ASX. Converting Shares (other than the terms relating to the earn-out formulae and conversion mechanics and to takeovers and schemes summarised in this Item) carry the same rights as existing ordinary shares in Funtastic, including the right to:

- vote at a general meeting of Funtastic (both on a show of hands and on a poll);
- receive dividends;
- participate in surplus assets on a winding up;
- repayment of capital; and
- receive accounts, reports and notices of meeting of Funtastic and to attend any general meetings of Funtastic.

Each Converting Share ranks equally in all respects with each other Converting Share and each ordinary share.

The 10,000,000 Converting Shares will convert to ordinary shares in two tranches (after the end of the 2009 and 2010 earn out periods). The Vendors will receive a minimum of 10,000,000 ordinary shares as consideration for the Proposed Acquisition. The Vendors may receive a greater number of ordinary shares, up to a maximum of 50,000,000 depending on NSR's financial performance during the earn-out periods, to be determined in accordance with the relevant earn-out formula..

In the event of a takeover offer recommended by the Board or of a scheme of arrangement, Funtastic must use its best endeavours to procure that holders of the Converting Shares participate in that takeover or scheme on terms equivalent to those offered to holders of ordinary shares.

The 10,000,000 Converting Shares to be issued to the Vendors on Completion will be held in escrow for a period of 24 months, under an Escrow Deed to be entered into by Funtastic, the Vendors and the controllers of NSR Peas Pty Ltd. Any ordinary shares issued to the Vendors on conversion of the Converting Shares will also remain in escrow until the end of that period.

During the escrow period, the shares subject to escrow may not be sold or dealt with by the Vendors, subject to the qualification noted below. By agreeing to enter into the escrow arrangements the Vendors are demonstrating their faith in, and commitment to, Funtastic and its business. The qualification to the escrow restrictions is that the Vendors may enter into forward selling arrangements in respect of shares subject to escrow to satisfy an obligation to transfer an agreed number of shares to a third party under a separate commercial arrangement between the Vendors and that third party. Any transaction entered into under this exception may not be completed before the end of the escrow period.

The Directors are proposing that shareholders approve an amendment to Funtastic's constitution to expressly provide for the issue of the Converting Shares. This proposed amendment to Funtastic's constitution is described in more detail below in relation to Item 6.

Conditions to completion of Proposed Acquisition

Completion of the Proposed Acquisition is subject to a number of conditions including:

- approval of the resolutions in Item 5 of the Notice of Annual General Meeting by Funtastic shareholders eligible to vote on the resolution;
- approval of the resolution in Item 6 of the Notice of Annual General Meeting by Funtastic shareholders eligible to vote on the resolution;
- approval of the resolution in Item 7 of the Notice of Annual General Meeting by Funtastic shareholders eligible to vote on the resolution and completion of the Rights Issue to which the resolution in Item 7 relates;
- Funtastic being satisfied that the financial performance of NSR (HK) for the year ended 31 December 2008 meets a threshold EBIT of at least A$500,000 (subject to various adjustments) (at an agreed exchange rate of US$0.65 to A$1.00);
- obtaining confirmations from various counterparties to key contracts (including Chorion Rights Limited UK, the licensor in respect of Noddy products) that they will not terminate those contracts as a result of the potential change in control of NSR that may result from the Proposed Acquisition;
- the completion of the Rights Issue, including (if required) the Underwriter subscribing for all the underwritten shares (as defined in the underwriting agreement); and
- National Australia Bank rolling over Funtastic's financing facilities on terms acceptable to Funtastic and the Vendors.

Pre-emptive right to acquire 40% of ToyMonster business

At the time Funtastic executed the Sale Agreement, it also agreed with the Vendors that Funtastic will enter into an agreement on or before Completion concerning another Hong Kong based toy company, ToyMonster Limited (**ToyMonster** and **ToyMonster Deed** respectively). Under the ToyMonster Deed, Funtastic will (for no additional consideration) be granted a pre-emptive right to acquire from Brillion Pty Ltd (a company controlled by Mr Nir Pizmony) 40% of the issued shares in ToyMonster. This pre-emptive right will apply until 31 January 2010, and is subject to completion of due diligence on ToyMonster by Funtastic and agreement as to commercial terms.

Summary of Rights Issue and underwriting agreement

Concurrently with the Proposed Acquisition, Funtastic proposes to undertake the Rights Issue to raise approximately A$22.3 million (before costs). If the resolutions in Items 5, 6 and 7 of the Notice of Annual General Meeting are approved, eligible Funtastic shareholders will be entitled to subscribe for one New Share for every Funtastic share they hold at an issue price of A$0.135 per share. If the Rights Issue is not fully subscribed, the Directors intend to employ a shortfall facility under which a maximum number of 10,000,000 Funtastic shares may be offered to certain eligible officers of Funtastic to whom an offer of shares may be made by Funtastic under the Corporations Act without a disclosure document.

If the resolutions in Items 5, 6 and 7 of the Notice of Annual General Meeting are approved, Funtastic will initiate the Rights Issue shortly after the Annual General Meeting by releasing a timetable for that offer to ASX and despatching documentation to Funtastic shareholders inviting them to participate in the Rights Issue. Certain foreign shareholders will be ineligible to participate in the Rights Issue. It is proposed that the Rights Issue will be made under section 708AA of the Corporations Act and ASIC Class Order 08/35 which allows rights issues to be undertaken without formal disclosure to shareholders that may otherwise be required under the Act.

The Rights Issue will be fully underwritten by Elsie May Holdings Pty Ltd in its capacity as trustee of the Lauren Mathieson Family Trust No. 3 (**Elsie May Holdings** or **Underwriter**). Elsie May Holdings is an entity associated with Mr Craig Mathieson. On 16 May 2009, Funtastic entered into an underwriting agreement with Elsie May Holdings (**Underwriting Agreement**). The Underwriting Agreement is subject to several conditions, including shareholder approval being given to the resolutions in Items 5 and 7, completion of the Proposed Acquisition, confirmation from National Australia Bank Limited that after completion of the Proposed Acquisition, it will provide finance to Funtastic on terms acceptable to Elsie May Holdings and various consents being given in relation to material contracts of the Company. The Underwriting Agreement is also subject to a number of termination events that are typical in an agreement of this nature, including the following (if they occur before 10.00 am on the settlement date for the Rights Issue):

- (**market fall**) a fall in the All Ordinaries Index to a level for a period of three consecutive trading days which is greater than or equal to 15% below its level as at close of business on 15 May 2009;
- (**share price**) the 20 Business Day volume weighted average price for a Funtastic share on the ASX falls to a level 15% or more below the volume weighted average price for a Funtastic share on the ASX for the 20 Business Day period ending on 15 May 2009;
- (**breach**) Funtastic is in material breach of any term or condition of the Underwriting Agreement;
- (**representation or warranty**) any representation or warranty made by Funtastic in the Underwriting Agreement is or becomes incorrect in a material particular;
- (**ASIC action**) ASIC:
    - prosecutes or gives notice of an intention to prosecute; or
    - commences proceedings against, or gives notice of an intention to commence proceedings against,

  Funtastic or any of its respective directors, officers, employees or agents in relation to the Rights Issue;
- (**ASX action**) ASX announces that Funtastic shares will be delisted, removed from quotation, withdrawn from admission to trading status or suspended from quotation (not including a trading halt or suspension requested by Funtastic or required by ASX to facilitate the Proposed Acquisition or Rights Issue);

- (**withdrawal**) Funtastic withdraws the Offer Documents or terminates the Rights Issue;
- (**debt facilities**) Funtastic breaches, or defaults under, any provision, undertaking, covenant or ratio of a material debt or financing arrangement or any related documentation to which that entity is a party which, in the Underwriter's reasonable opinion, has a material adverse effect on Funtastic;

  An event of default, potential event of default, review event which gives a lender or financier the right to accelerate or require repayment of the debt or financing or other similar event occurs under or in respect to any such debt or financing arrangement or related documentation;
- (**revised debt arrangements**) Funtastic enters into or makes arrangements to enter into any new material debt facilities or financing arrangements (including the repayment or retirement of any debt) or makes any change to any existing arrangements (including covenants) without the prior written consent of the Underwriter;

  Funtastic does not satisfy a condition precedent contained in any documentation relating to any new material debt facilities or financing arrangements (including the repayment or retirement of any debt);
- **(repayment)** any circumstance arises after lodgement of the Offer Documents that results in Funtastic either repaying the money received from Applicants or offering Applicants an opportunity to withdraw their Applications and be repaid their Application Money;
- **(supplementary Offer Documents)** Funtastic lodges supplementary or replacement Offer Documents in relation to the Rights Issue without the prior written consent of the Underwriter, such consent not to be unreasonably withheld or delayed;
- **(disclosure in Offer Documents)** a statement contained in the Offer Documents is, or is likely to be, false, misleading or deceptive;
- **(correcting notice)** in the reasonable opinion of the Underwriter, Funtastic becomes required to give, or Funtastic gives, a correcting notice under section 708AA(10) or section 708(A)(9);
- **(Information provided to Underwriter)** any information supplied by or on behalf of Funtastic to the Underwriter in relation to Funtastic or the Rights Issue is, or is likely to be, false, misleading or deceptive in any material respect;
- **(change in management)** a change in the board of Directors or senior management of Funtastic occurs without the prior written consent of the Underwriter;
- **(legal proceedings and offence by Directors)** any of the following occurs:
  - a Director is charged with an indictable offence;
  - material legal proceedings are commenced against Funtastic or any Director; or
  - any Director is disqualified from managing a corporation under Part 2D.6 of the Corporations Act;
- **(change to constitution)** prior to the Allotment Date, a change to the constitution of Funtastic occurs without the prior written consent of the Underwriter, other than a change to the constitution to the extent required to facilitate the Proposed Acquisition;
- **(change to capital structure)** any of the following occur without the Underwriter's consent:
  - Funtastic converts all or any of its Shares into a larger or smaller number of Shares;

    - Funtastic proposes to buy back, passes or considers any resolution of directors or at a general meeting to buy back, or buys back, any of its Shares;
    - Funtastic makes an allotment of, or grants an option to subscribe for, any of its Shares, or agrees to make such an allotment or grant such an option, other than pursuant to the Rights Issue, Funtastic's employee share plan (or any right to exercise or convert securities issued pursuant to such a plan), the Acquisition, the proposed acquisition of the ToyMonster business or the underwriting agreement;
    - Funtastic issues, or agrees to issue, convertible notes;
    - Funtastic disposes, or agrees to dispose, of the whole, or a substantial part of its business or property (other than the divestment of the "soft goods" division (including apparel, footwear, furnishings and homewares) and Planet Fun NZ);
    - Funtastic charges, or agrees to charge, the whole, or a substantial part of its business or property;
- (**change in management**) a change in the board of Directors or senior management of Funtastic occurs without the prior written consent of the Underwriter;
- (**material adverse change**) any material adverse change occurs or an event occurs which is likely, in the reasonable opinion of the Underwriter, to give rise to a material adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of Funtastic or the Group;
- (**insolvency**) Funtastic becomes Insolvent (as defined in the Underwriting Agreement) or there is an act or omission which may result in Funtastic becoming Insolvent;
- (**judgment**) a judgment is obtained against Funtastic or any member of the Group and is not appealed or satisfied within seven days and, in the reasonable opinion of the Underwriter, there are reasonable grounds for such appeal; and
- (**adverse change in financial markets**) any adverse change or disruption to the existing financial markets, political or economic conditions of Australia, the United States of America, the United Kingdom or the international financial markets or any change in national or international political, financial or economic conditions.

The Underwriting Agreement also contains a number of other termination events relating to investigations or prosecutions by ASIC and events affecting Australian and international financial markets.

Underwriting fees

If the Rights Issue is completed, the Underwriter will be entitled to receive a fee of 5% of the value of the total number of new shares to which the Underwriting Agreement applies.

Board changes

The Underwriting Agreement provides that Mr Craig Mathieson will be appointed as a Director of Funtastic if, following completion of the Rights Issue, the Underwriter and its associates together hold at least 20 million shares in Funtastic. Mr Craig Mathieson manages various private investments on behalf of his immediate family. Prior to the sale of DMS Glass (a company controlled by his family and its associates) to CSR Limited, Mr Craig Mathieson was the managing director of the DMS Glass group of companies. He subsequently held a senior executive role with CSR Limited's business, Viridian Glass. Previously, Mr Mathieson held corporate and business banking roles in various local and international banks.

Timetable

Subject to the passage of the resolutions in Items 5, 6 and 7 of the Notice of Annual General Meeting, the Rights Issue will be conducted in July 2009. Funtastic's aim is to complete the Rights Issue by mid-August 2009. A separate timetable for the Rights Issue will be released to ASX after the Annual General Meeting (assuming the resolutions in Items 5, 6 and 7 are duly passed). Your Directors consider that the proposed Rights Issue presents a significant opportunity for Funtastic to improve its balance sheet following significant write downs, at a time of considerable uncertainty in the global economy.

Possible disadvantages and risks of the Proposed Transactions

Your Directors have identified the following potential disadvantages and risks of the Proposed Transactions:

- There is some uncertainty surrounding the timing and the ability of NSR (HK) to achieve its forecast sales and margins for its Noddy and distribution businesses.
- The integration of NSR (HK)'s business into Funtastic's operations carries certain risks. Intergration risks include geographic location, continuity and integration of operations and employees. If NSR (HK)'s business is not integrated in an orderly and timely manner, Funtastic may not realise the expected scale, synergy and other benefits from the Proposed Acquisition. To minimise this risk, appropriate implementation plans will be developed. In addition, although Funtastic has conducted legal, financial and operational due diligence in relation to NSR (HK), unexpected problems and latent liabilities or contingencies may still emerge. Accordingly, there is a risk that NSR (HK) may fail to perform in line with Funtastic's expectations.
- The issue of shares to the Vendors and, if there is any shortfall after the operation of the shortfall facility, the issue of shares to the Underwriter, will result in dilution of the non-associated shareholders' shareholding in Funtastic.
- Following completion of the Proposed Transactions, the Mathieson entities and the Pizmony entities may have a substantial shareholding in Funtastic. The size of that shareholding will depend on the number of shares issued to the Pizmony entities in connection with the Proposed Acquisition and the number of shares issued to the Mathieson entities in connection with the proposed Rights Issue, and could vary from a total of 11.17% to 60.25% of the shares in Funtastic (see pages 30-31 below and paragraphs 94-97 of the Independent Expert's Report). The presence of the Mathieson entities and the Pizmony entities as substantial shareholders may act as a disincentive to any future takeover of Funtastic by a third party, assuming the Mathieson entities and the Pizmony entities remain associates after implementation of the Proposed Transactions. Making this same assumption, there is a possibility that the Mathieson entities and the Pizmony entities could subsequently make a takeover offer for the remaining Funtastic shares at a price that does not incorporate the same premium that a bidder who does not already have effective control of Funtastic may offer. However, since there are three shareholders of Funtastic who each hold an interest of 10% or more in Funtastic, it is possible that such shareholders could, separately or together, block any proposed takeover offer unless an appropriate premium was offered.

Your Directors consider that the expected advantages of the Proposed Transactions outweigh the above possible disadvantages and risks.

Item 5 – Proposed Acquisition of NSR

Shareholder approval is being sought for the Proposed Acquisition in accordance with Listing Rule 10.1 and Section 611 Item 7 of the Corporations Act for the following reasons.

Listing Rule 10.1

Broadly, under Listing Rule 10.1, Funtastic must obtain the approval of its Shareholders before acquiring a *substantial asset* from or disposing of a *substantial asset* to a related party, a subsidiary, *a substantial holder*, an associate of any of these persons or a person whose relationship to Funtastic or to any of these other persons is such that, in ASX's opinion, the transaction should be approved.

There are certain exceptions to Listing Rule 10.1, none of which are applicable to any element of the Proposed Acquisition.

An asset is considered a *substantial asset* for the purpose of Listing Rule 10.1 if its value, or the value of the consideration to be paid for it, is more than 5% of Funtastic's equity interests as set out in the latest accounts of the Company given to ASX. The Proposed Acquisition qualifies as a *substantial asset* in relation to Funtastic, as the value of NSR, or the value of the consideration to be paid for NSR, is more than 5% of Funtastic's equity interests as set out in the latest accounts of Funtastic given to ASX.

A *substantial holder* for the purpose of Listing Rule 10.1 is defined as a person who, together with their associates, has at least 10% voting power in Funtastic or who, together with their associates, has had at least 10% voting power in Funtastic in the previous six months. NSR Peas Pty Ltd and Mr Hod Pizem, together with their associates (including entities associated with Mr Craig Mathieson), have, during the 6 months prior to when the Proposed Acquisition is expected to be completed, held a relevant interest in more than 10% of the voting securities in the Company. As at the date of the Notice of Annual General Meeting, associates of NSR Peas Pty Ltd and Mr Hod Pizem have a relevant interest in voting securities of the Company of 14,045,961 shares equal to 8.49% of the voting shares in the Company. As a result of the fact that they have, together with their associates, held a relevant interest in Funtastic greater than 10% during the previous six months, NSR Peas Pty Ltd and Mr Hod Pizem are considered together to be a *substantial holder* of Funtastic for the purpose of Listing Rule 10.1.

Section 611 Item 7

Unless a relevant exception applies, a person is prohibited under section 606(1) of the Corporations Act from acquiring shares if as a result of the acquisition of shares a person would have voting power in Funtastic in excess of 20%. A person's voting power is calculated by reference to the total number of votes attached to all the voting shares that that person and their associates have a relevant interest in.

Section 611 Item 7 of the Corporations Act provides an exception to this prohibition if the acquisition of the relevant securities has been approved by Funtastic shareholders in general meeting.

On completion of the Proposed Acquisition and the Rights Issue (described in more detail later in these Explanatory Notes), depending on the number of Funtastic shares that are issued to the Vendors and the number of Funtastic shares for which the Underwriter is required to subscribe under the Underwriting Agreement, the Vendors together with their associates (including the Underwriter) may have a relevant interest in more than 20% of the voting securities of Funtastic.

The shareholdings of the Vendors in Funtastic at the end of the second earn-out period will depend on several factors, including the total number of Funtastic shares on issue at that time, the number of shares issued to the Vendors in respect of the Proposed Acquisition, and the number of shares (if any) acquired by the Vendors following completion of the Rights Issue or as a result of any other acquisitions or disposals. As at the date of the Notice of Annual General Meeting, the number of ordinary shares in Funtastic on issue is 165,498,841. If the Rights Issue the subject of the resolution in Item 7 is completed and fully subscribed (whether by offerees or by the Underwriter), the number of Funtastic shares on issue at the completion of the Rights Issue will be approximately 330,997,682 (not including any shares issued to the Vendors as consideration for the Proposed Acquisition).

Neither of the Vendors currently owns any Funtastic shares (although associates of the Vendors do hold shares as detailed above).

One of the Vendors, NSR Peas Pty Ltd, is associated with Mr Nir Pizmony. Mr Pizmony has previously been involved in proposals to acquire a substantial interest in Funtastic shares, including in connection with the proposal by the Archer consortium announced by the Company to ASX in May 2008 (which did not proceed). The Archer consortium was a joint venture between Archer Capital and Pizmony Investment Company Pty Ltd, which was acting as trustee for the Pizmony Investment Trust. The beneficiaries of the Pizmony Investment Trust are interests associated with both Mr Pizmony and Mr Craig Mathieson.

The Vendors are associates (as defined in the Corporations Act) of the Underwriter and of the other persons described in the following table.

Name of shareholder	**Number of ordinary shares**
Holdrey Pty Ltd ATF The Don Mathieson Family Trust	1,370,219 ordinary shares
DDVM Superannuation Nominees Pty Ltd ATF DDVM Super Fund	200,000 ordinary shares
Stewart John Alastair Downs & Lauren Michelle Mathieson Downs ATF S&L Downs Superannuation Fund	71,345 ordinary shares
Lauren Michelle Mathieson Downs	548,655 ordinary shares
Pizmony Investment Company Pty Ltd	5,000,000 ordinary shares
N Pizmony	47,523 ordinary shares
NSR Toys Pty Ltd ATF Pizmony Family Trust	5,587,019 ordinary shares
N Pizmony and M L Pizmony	1,221,200 ordinary shares

None of the above associates of the Vendors will receive any Funtastic shares as part of the Proposed Acquisition. They will be entitled to take part in the Rights Issue to the extent they hold Funtastic shares on the record date.

Currently, the aggregate voting power of the Vendors' associates is 8.49%. If each of the Vendors' associates and each other shareholder takes up its full entitlement to shares in Funtastic under the Rights Issue, the aggregate shareholding of the Vendors' associates would be 28,091,922. Depending on the consideration received by the Vendors, the voting power of the Vendors and their associates would be:

(a) if the Vendors were to receive consideration of a total of 10,000,000 Funtastic shares as consideration (i.e., if no shares were to be provided in respect of the earn-out period) – 11.17%;

(b) if the Vendors were to receive consideration of a total of 30,000,000 Funtastic shares as consideration (i.e., if 20,000,000 shares were to be provided in respect of the earn-out period) – 16.09%; and

(c) if the Vendors were to receive consideration of a total of 50,000,000 Funtastic shares as consideration (i.e., if 40,000,000 shares were to be provided in respect of the earn-out period) –20.50%.

The Vendors are associates of the Underwriter, Elsie May Holdings. The Underwriter will not receive any Funtastic shares as part of the Proposed Acquisition but may receive Funtastic shares under the underwriting of the Rights Issue. An analysis of the Underwriter's potential voting power (and that of its associates, including the Vendors) is provided in Item 7. If the Vendors become entitled to the maximum 50,000,000 shares and if no Funtastic shareholders subscribe for shares under the Rights Issue there would be 380,997,682 shares on issue in Funtastic. 50,000,000 of these would be owned by the Vendors (13.12%), 165, 498,841 shares would be owned by the Underwriter (43.44%), 14,045,961 shares would be owned by other associates of the Vendors (3.69%) and the remaining 151,452,880 shares would be owned by shareholders not associated with the Vendors (39.75%). In these circumstances, the voting power of the Vendors and their associates (including the Underwriter) would be 60.25% which is the maximum possible voting power of the Vendors and their associates in Funtastic. The maximum possible increase in the voting power of the Vendors and their associates in Funtastic would be 51.76% (being the difference between 60.25% and 8.49%).

Further combinations of the Vendors', the Vendors' associates' and the Underwriter's possible voting power as a result of the Rights Issue are detailed in paragraphs 94-97 of the Independent Expert's Report.

Following completion of the Proposed Acquisition and the Rights Issue, it is likely that the Vendors together with their associates (including the Underwriter, Elsie May Holdings) will have voting power in Funtastic greater than 20%. Unless a relevant exception applies, a person commits an offence under the Corporations Act by acquiring shares where as a result of the acquisition that person's voting power in Funtastic is more than 20%. Section 611 Item 7 of the Corporations Act provides an exception to this prohibition if the acquisition of the relevant securities has been approved by the Company's shareholders in general meeting. For the exception to apply, shareholders must be given all information known to the person proposing to make the acquisition, in this case the Vendors, or known to Funtastic, that is material to the decision on how to vote on this resolution. These Explanatory Notes contain this information

It is also relevant to note that if Funtastic's shareholders approve the increase in the relevant interest of the Vendors and their associates under section 611 Item 7 of the Corporations Act, there is no need for shareholders to separately approve Funtastic issuing the Vendors a number of shares that may potentially exceed the 15% cap in Listing Rule 7.1 (see Listing Rule 7.2, exception 16).

Independent expert's report

Listing Rule 10.10.2 requires, in respect of Listing Rule 10.1, and ASIC Regulatory Guide 74 recommends, in respect of section 611 Item 7, that the Notice of Annual General Meeting include a report from an independent expert stating whether the Proposed Acquisition is fair and reasonable to ordinary shareholders of Funtastic other than any shareholders whose votes are to be disregarded (as set out in the Voting restrictions). Funtastic engaged BDO Kendalls Securities (NSW – Vic) Pty Ltd (**BDO**) to prepare an independent expert's report (**Independent Expert's Report**) for this purpose and for the purpose of providing an opinion on the terms of the Rights Issue, including the underwriting arrangements, to which the resolution in Item 7 relates.

For the reasons set out in the Independent Expert's Report, BDO considers that, on balance, the Proposed Acquisition is fair and reasonable to those of Funtastic's shareholders entitled to vote on this resolution. The Independent Expert's Report accompanies the Notice of Annual General Meeting and shareholders are encouraged to read that report in full.

Statement of intention

If the Proposed Acquisition is approved by shareholders and the Vendors obtain sufficient shares, based on the material facts, information and circumstances as at the date of this Notice of Annual General Meeting, the Vendors have informed Funtastic that they plan to continue to implement the Board's current strategy which includes improving the efficiency of the Company's core assets, divesting any non-core assets and focusing on establishing an integrated toy business.

The Vendors have informed Funtastic that they have no current intention to:

(a) inject further capital into Funtastic;

(b) transfer any property between the Vendors or any person associated with the Vendors and Funtastic;

(c) change the employment policies of Funtastic, although it is recognised that additional employees may be required in the future as Funtastic's operations expand; or

(d) change Funtastic's existing policies in relation to financial matters or dividends.

Directors' recommendation

The Directors unanimously recommend that shareholders vote in favour of the resolution in Item 5. The Proposed Acquisition will benefit the Company by providing significant expansion opportunity through the acquisition of valuable toy licences and the benefit of NSR's established distribution channels and sales and marketing expertise.

Voting restrictions

For the purpose of Listing Rule 10.1, Funtastic will disregard any votes cast on the resolution in Item 5 by the Vendors or any of their associates including Elsie May Holdings and entities associated with Mr Craig Mathieson and any other person who might obtain a benefit, except a benefit solely in the capacity of a holder of securities, if the resolution is passed. However, Funtastic need not disregard a vote if:

(a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Item 6 – Resolution to amend constitution

An amendment is proposed to Funtastic's Constitution to insert a new "Rule 7A Converting Shares" (after the existing "Rule 7 Preference Shares") in the form set out in the Annexure to these Explanatory Notes.

Under Rule 5 of Funtastic's Constitution, the Directors have a general power to issue and allot securities and options in the capital of the Company and to decide the terms on which such shares and options are granted and the rights and restrictions attached to those shares or options.

Part 2F.2 of the Corporations Act sets out certain circumstances in which an issue of a new class of shares may be taken to vary the rights attached to an existing class of shares, and a separate approval procedure to be followed if an issue of shares is deemed to vary the rights attached to an existing class of shares.

The proposed Rule 7A provides that the Directors may issue converting shares on terms which would include the terms of issue of the Converting Shares. If the Constitution expressly provides for the issue of converting shares, no separate approval process is required, and the issue of the Converting Shares in respect of the Proposed Acquisition will not be deemed to vary the rights attached to an existing class of shares. In addition, if Funtastic wishes to issue converting shares at a future date, no new approval process will be required simply to issue shares with the rights set out in the proposed Rule 7A.

Resolution 6 is proposed as a special resolution and is being put to Funtastic shareholders to obtain their approval under section 136(2) of the Corporations Act. This section requires that any modification of Funtastic's constitution be approved by special resolution of Funtastic shareholders. To be approved, this resolution must be passed by more than 75% of the votes cast either in person or by proxy at the Annual General Meeting by Funtastic shareholders entitled to vote on the resolution.

Your Directors unanimously recommend that shareholders vote in favour of the resolution in Item 6.

Item 7 – Rights Issue and underwriting arrangements

Shareholder approval is being sought for the Rights Issue, including the underwriting arrangements, in accordance with section 611 Item 7 of the Corporations Act for the following reasons.

Section 611 Item 7

Unless a relevant exception applies, a person is prohibited under section 606(1) of the Corporations Act from acquiring shares if as a result of the acquisition a person would have voting power in Funtastic in excess of 20%. A person's voting power is calculated by reference to the total number of votes attached to all the voting shares that that person and their associates have a relevant interest in.

Although Elsie May Holdings is entitled to rely on section 611 item 10 which exempts the acquisition of securities by an underwriter from the general prohibition, in the interests of giving Funtastic shareholders full disclosure of the Rights Issue and the underwriting arrangements, Funtastic, together with Elsie May Holdings, has elected to seek shareholder approval of the Rights Issue and the underwriting arrangements under section 611 Item 7. Section 611 Item 7 of the Corporations Act provides an exception to the prohibition in section 606(1) if the acquisition of the relevant securities has been approved by Funtastic shareholders in general meeting. Concurrently with the Proposed Acquisition, Funtastic proposes to conduct a one for one pro rata non-renounceable Rights Issue of new ordinary shares in Funtastic at an issue price of A$0.135 per share, to raise approximately A$22.3 million (before costs). The net proceeds from the Rights Issue (after payment of associated costs) will be used by Funtastic to pay down debt and for working capital.

Shareholder approval for the Rights Issue, including the underwriting arrangements, is being sought because Elsie May Holdings, together with its associates including entities associated with Mr Nir Pizmony, hold a relevant interest in 14,045,961 Funtastic shares. The associates of Elsie May Holdings in relation to Funtastic, and their shareholdings are as follows:

Name of shareholder	Number of ordinary shares
Holdrey Pty Ltd ATF The Don Mathieson Family Trust	1,370,219 ordinary shares
DDVM Superannuation Nominees Pty Ltd ATF DDVM Super Fund	200,000 ordinary shares
Stewart John Alastair Downs & Lauren Michelle Mathieson Downs ATF S&L Downs Superannuation Fund	71,345 ordinary shares
Lauren Michelle Mathieson Downs	548,655 ordinary shares
Pizmony Investment Company Pty Ltd	5,000,000 ordinary shares
N Pizmony	47,523 ordinary shares
NSR Toys Pty Ltd ATF Pizmony Family Trust	5,587,019 ordinary shares
N Pizmony and M L Pizmony	1,221,200 ordinary shares

Elsie May Holdings is associated with Mr Craig Mathieson. Mr Mathieson is also a director of Pizmony Investment Company Pty Ltd in its capacity as trustee of the Pizmony Investment Unit Trust which was involved in proposals to acquire a substantial interest in Funtastic shares, including in connection with the proposal by the Archer consortium announced by Funtastic to ASX in May 2008 (which did not proceed). The Archer consortium was a joint venture between Archer Capital and Pizmony Investment Company Pty Ltd. The beneficiaries of the Pizmony Investment Unit Trust are interests associated with both Mr Mathieson and Mr Nir Pizmony. Additionally, as noted above, Elsie May Holdings is the trustee company of the Lauren Mathieson Family Trust No 3. Lauren Michelle Mathieson Downs is the sister of Mr Mathieson and the wife of Stewart Downs, the current Chief Executive Officer of Funtastic.

If the Rights Issue is not fully subscribed and the Underwriter subscribes for the shortfall shares that have not been subscribed for by other shareholders, then, depending on the number of new shares that the Underwriter acquires, the voting power in Funtastic of the Underwriter together with its associates may exceed 20%. As the Underwriter is also an associate of the Vendors, the voting power of the Underwriter together with its associates will be affected by the number of shares that are issued to the Vendors as consideration for the Proposed Acquisition.

The Vendors and the Underwriter are associates. The Underwriter will not receive any Funtastic shares as part of the Proposed Acquisition but may receive Funtastic shares under the underwriting of the Rights Issue. Possible scenarios for the voting power of the Underwriter following completion of the Rights Issue are as follows:

(a) if 40% of shares available under the Rights Issue are taken up by eligible shareholders, and the Vendors are entitled to receive 10,000,000 shares as consideration for the Proposed Acquisition, there would be 340,997,682 shares on issue in Funtastic. 10,000,000 of these would be held by the Vendors (2.93%), 99,299,304 would be held by the Underwriter (29.1%), 14,045,961 shares would be held by other associates of the Underwriter (4.12%) and the remaining 217,652,417 shares would be owned by shareholders not associated with the Underwriter (63.83 %). In these circumstances, the voting power of the Underwriter and its associates (including the Vendors) would be 36.17%;

(b) if 20% of shares available under the Rights Issue are taken up by eligible shareholders, and the Vendors are entitled to receive 10,000,000 shares as consideration for the Proposed Acquisition, there would be 340,997,682 shares on issue in Funtastic. 10,000,000 of these would be held by the Vendors (2.93%), 132,399,072 would be held by the Underwriter (38.82%), 14,045,961 shares would be held by other associates of the Underwriter (4.12%) and the remaining 184,552,649 shares would be owned by shareholders not associated with the Underwriter (54.12 %). In these circumstances, the voting power of the Underwriter and its associates (including the Vendors) would be 45.88%; and

(c) if no Funtastic shareholders subscribe for shares under the Rights Issue, and the Vendors are entitled to receive the maximum 50,000,000 shares as consideration for the Proposed Acquisition, there would be 380,997,682 shares on issue in Funtastic. 50,000,000 of these would be held by the Vendors (13.12%), 165, 498,841 shares would be held by the Underwriter (43.44%), 14,045,961 shares would be held by other associates of the Underwriter (3.69%) and the remaining 151,452,880 shares would be held by shareholders not associated with the Underwriter (39.75%). In these circumstances, the voting power of the Underwriter and its associates (including the Vendors) would be 60.25% which is the maximum possible voting power of the Underwriter and its associates in Funtastic. The maximum possible increase in the voting power of the Underwriter and its associates (including the Vendors) in Funtastic would be 51.76% (being the difference between 60.25% and 8.49%).

In addition to the examples above, the following table sets outs the potential voting power of the Underwriter and its associates (including the Vendors) in various scenarios, depending on the number of shares in Funtastic issued to the Vendors in connection with the Proposed Acquisition and the extent to which Funtastic shareholders subscribe for shares under the Rights Issue.

Voting power of the Underwriter and its associates (including the Vendors)

		Shares issued to Vendors		
		10,000,000	**30,000,000**	**50,000,000**
Rights Issue Participation	**0%**	55.59%	58.05%	60.25%
	20%	45.88%	48.88%	51.56%
	40%	36.17%	39.71%	42.87%
	60%	26.47%	30.54%	34.19%
	100%	11.17%	16.09%	20.50%

Further scenarios setting out the possible voting power of Elsie May Holdings as a result of the Rights Issue are detailed in paragraphs 94-97 of the Independent Expert's Report.

In the absence of an applicable exception, Elsie May Holdings would breach section 606(1) of the Corporations Act by acquiring shares where as a result of the acquisition its voting power in Funtastic is in excess of 20%. Accordingly, as a condition to the Underwriting Agreement, Elsie May Holdings requires shareholder approval of such increase under section 611 Item 7 of the Corporations Act. For the exception in section 611 Item 7 of the Corporations Act to apply, shareholders must be given all information known to the person proposing to make the acquisition, in this case Elsie May Holdings, or known to Funtastic, that is material to the decision on how to vote on this resolution. These Explanatory Notes contain this information.

As noted above, Elsie May Holdings already has a significant relevant interest in the Company's voting securities. In addition, Elsie May Holdings is not a professional underwriter. However, having regard to Funtastic's need for capital and its other available alternatives, including that alternative underwriting arrangements may not be possible in current market conditions on commercially viable terms, the Directors have determined that entry into the Underwriting Agreement is the best strategy to provide Funtastic with a firm underwriting commitment in respect of the Rights Issue. Although the Directors consider that the underwriting arrangements with Elsie May Holdings set out in the Underwriting Agreement are on arm's length terms, in light of the existing significant relevant interest of Elsie May Holdings in Funtastic, the fact that it is not a professional underwriter, and the possibility that Elsie May Holdings may acquire a relevant interest in more than 20% of Funtastic's voting securities on completion of the Rights Issue, the Directors have determined to seek shareholder approval for the Rights Issue, including the underwriting arrangements.

Statement of intention

As noted above, if shareholders approve the Rights Issue and the underwriting arrangements, and if Elsie May Holdings receives sufficient new shares under either the Rights Issue and/or the underwriting arrangements, Elsie May Holdings will seek to obtain representation on the board of Funtastic with the appointment of Mr Craig Mathieson. If its shareholding brings it sufficient influence after the issue to it of new shares, Elsie May Holdings will consider and review all material factors affecting the business of

Funtastic and determine how, if at all, it is able to influence the day to day management of Funtastic to contribute to Funtastic's profitable growth.

Based on the material facts, information and circumstances as at the date of this Notice of Annual General Meeting, Elsie May Holdings has informed Funtastic that it plans to continue to implement the Board's current strategy which includes improving the efficiency of Funtastic's core assets, divesting any non-core assets and focusing on establishing an integrated toy business. Elsie May Holdings has informed Funtastic that it has no current intention to:

- inject further capital into Funtastic;
- transfer any property between Elsie May Holdings or any person associated with Elsie May Holdings and Funtastic;
- change the employment policies of Funtastic, although it is recognised that additional employees may be required in the future as Funtastic's operations expand; or
- change Funtastic's existing policies in relation to financial matters or dividends.

Independent expert's conclusion

ASIC Regulatory Guide 74 recommends in respect of a resolution proposed under section 611 Item 7, that the notice of meeting include a report from an independent expert stating whether the relevant transaction is fair and reasonable to non-associated shareholders. Funtastic engaged BDO Kendalls Corporate Finance (**BDO**) to prepare an independent expert's report (the **Independent Expert's Report**) expressing an opinion on whether the terms of the Rights Issue, including the underwriting arrangements, are fair and reasonable to Funtastic's non-associated shareholders.

For the reasons set out in the Independent Expert's Report, BDO considers that, on balance, any increase in the relevant interest of Elsie May Holdings and its associates in Funtastic beyond 20% arising from the underwriting arrangements is fair and reasonable to Funtastic's non-associated shareholders.

The Independent Expert's Report accompanies this Notice of Annual General Meeting and shareholders are encouraged to read that report in full.

Directors' recommendation

Your Directors unanimously recommend that shareholders vote in favour of the resolution in Item 7. The Rights Issue, including the underwriting arrangements, will provide Funtastic with funding to enable it to repay debt and for working capital to support its businesses.

Voting restrictions

For the purpose of section 611, Item 7 of the *Corporations Act 2001* (Cth), the Company will disregard any votes cast in favour of the resolution in Item 7 by Elsie May Holdings or any of its associates, including the Vendors. However, the Company need not disregard a vote if:

(a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a decision on the proxy form to vote as the proxy decides.

By order of the Board

Date 27 May 2009

Signed

Name David Berry
Company Secretary

Annexure 1 – Proposed amendment to Constitution

7A Converting Shares

Subject to this constitution and the Listing Rules, the directors may create and issue converting shares which:

(a) constitute a class of ordinary shares in the share capital of the company and rank equally in all respects with each other converting share and each ordinary share, subject to the terms on which those shares are issued;

(b) convert into ordinary shares quoted on ASX in accordance with their terms of issue;

(c) may confer on the holders the right to be issued an additional number of ordinary shares for each converting share in accordance with their terms of issue;

(d) confer on the holder the same rights, in all respects, to those conferred on the holder of an ordinary share on an equal basis, including but not limited to any right to:

(i) participate in dividends declared by the directors from time to time;

(ii) repayment of capital; and

(iii) participate in the distribution of surplus assets and property on a winding up;

(e) confer on the holders the same rights as the holders of ordinary shares to receive notices, reports, profits and loss accounts and balance sheets and to attend, be heard and vote at all general meetings; and

(f) the company may issue further ordinary shares, converting shares or other securities ranking pari passu in all respects with other converting shares already on issue, and the rights of the issued converting shares are not deemed to have been varied by the further issues.

BDO Kendalls

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PRIVATE AND CONFIDENTIAL

23 May 2009

The Directors
Funtastic Limited
635 Waverley Road
Glen Waverley VIC 3150

Dear Sirs

INDEPENDENT EXPERT'S REPORT PURSUANT TO ASX LISTING RULE 10.1 AND SECTION 611(7) OF THE CORPORATIONS ACT

Introduction

1. Funtastic Limited ("**Funtastic**" or "**the Company**") was founded in 1994. Its principal activity is the wholesale of licensed consumer goods especially in children's product categories such as toys, education material, apparel and footwear. The Company listed its shares on the Australian Securities Exchange ("**ASX**") in September 2000.

2. Funtastic has requested BDO Kendalls Securities (NSW-VIC) Pty Ltd ("**BDO Kendalls Securities**") to prepare an Independent Expert's Report ("**IER**") in connection with:

   (a) its proposal to acquire 100% of the issued shares in NSR (HK) Limited ("**NSR (HK)**") ("**the Proposed Acquisition**"); and

   (b) its proposal to complete a fully underwritten 1:1 rights issue at AU$0.135 cents per share to raise approximately AU$22.3 million or approximately AU$21.2 million after costs ("**the Proposed Rights Issue**").

   The Proposed Acquisition and the Proposed Rights Issue together are referred to as the "**Proposed Transactions**".

3. The consideration for the Proposed Acquisition will include the issue of 10 million converting shares in Funtastic ("**Converting Shares**"), the assumption of bank debt and the obligation to repay NSR (HK)'s shareholder loans expected to total not more than AU$7.55 million. The balance of the consideration will be based on an earn-out formula linked to the performance of NSR (HK) in 2009 and 2010 based on an EBIT multiple of 4.5 times for 2009 and 5.0 times for 2010.

4. Mr Nir Pizmony, a previous director of Funtastic ("**Pizmony**"), is an associate of a major shareholder of NSR (HK) and also a substantial shareholder of Funtastic. We are advised the Proposed Acquisition is considered to be an acquisition of a substantial asset from a related party for the purposes of ASX Listing Rule 10.1. Accordingly, the Proposed Acquisition is subject to the approval of Funtastic shareholders at a general meeting and requires the provision of an IER in accordance with ASX Listing Rule 10.1. In addition, Funtastic has requested BDO Kendalls Securities to provide an IER for the Proposed Acquisition in the context of shareholder approval being sought for this transaction under Section 611 Item 7 of

the Corporations Act. Further, we have been requested to provide an opinion for the purpose of Section 611 Item 7 of the Corporations Act on whether the terms of the Proposed Rights Issue, including the underwriting arrangements, are fair and reasonable to Funtastic's non-associated shareholders.

5. A brief summary of the Proposed Transactions is set out in Section II of our report and a detailed outline of the Proposed Transactions is included in the Explanatory Notes issued by Funtastic that this report accompanies ("**Explanatory Notes**").

6. The Proposed Acquisition is subject to a number of key conditions, including:

- completion of the Proposed Rights Issue fully underwritten by Elsie May Holdings Pty Ltd ("**Elsie May**" or "**the Underwriter**"), an entity associated with Mr Craig Mathieson ("**Mathieson Entities**");
- Funtastic being satisfied that the financial performance of NSR (HK) for the year ended 31 December 2008 meets an EBIT threshold of $500,000 (subject to various adjustments).
- Funtastic obtaining any shareholder, financier and regulatory approvals;
- Pizmony and Mr Craig Mathieson ("**Mathieson**") approving the terms on which the financier agrees to provide finance to Funtastic post the Proposed Acquisition;
- the Mathieson Entities being satisfied as to the results of their due diligence investigations into Funtastic; and
- Funtastic and the Mathieson Entities being satisfied as to the results of each of their due diligence investigations into NSR (HK).

7. We are advised Pizmony is associated with Mathieson. Together they hold approximately 8.49% of the shares in Funtastic prior to the Proposed Transactions.

8. The directors of Funtastic have requested BDO Kendalls Securities to independently assess whether the Proposed Acquisition and the Proposed Rights Issue, including the underwriting arrangements, are each fair and reasonable to the current shareholders of Funtastic excluding Pizmony, Mathieson and any associated parties ("**Non-Associated Shareholders**").

9. This report has been prepared solely for the purpose of assisting the Non-Associated Shareholders in considering the Proposed Transactions. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose, including but not limited to investment or lending decisions in relation to Funtastic.

Summary and Conclusions for Funtastic Shareholders

Proposed Acquisition

10. In our opinion, the Proposed Acquisition, on balance, is **fair and reasonable** to the Non-Associated Shareholders of Funtastic.

11. The principal factors that we have taken into account in forming our opinion are summarised below and discussed in more detail in Section XII of this report:

- a comparison of the value of the consideration offered under the Proposed Acquisition to the value of the assets to be acquired;
- the effect on the value of the Non-Associated Shareholders' shareholding in the Company prior to and subsequent to the Proposed Acquisition; and
- the advantages and disadvantages for the Non-Associated Shareholders of the Proposed Acquisition occurring and the advantages and disadvantages of it not occurring.

Assessment on the fairness of the Proposed Acquisition

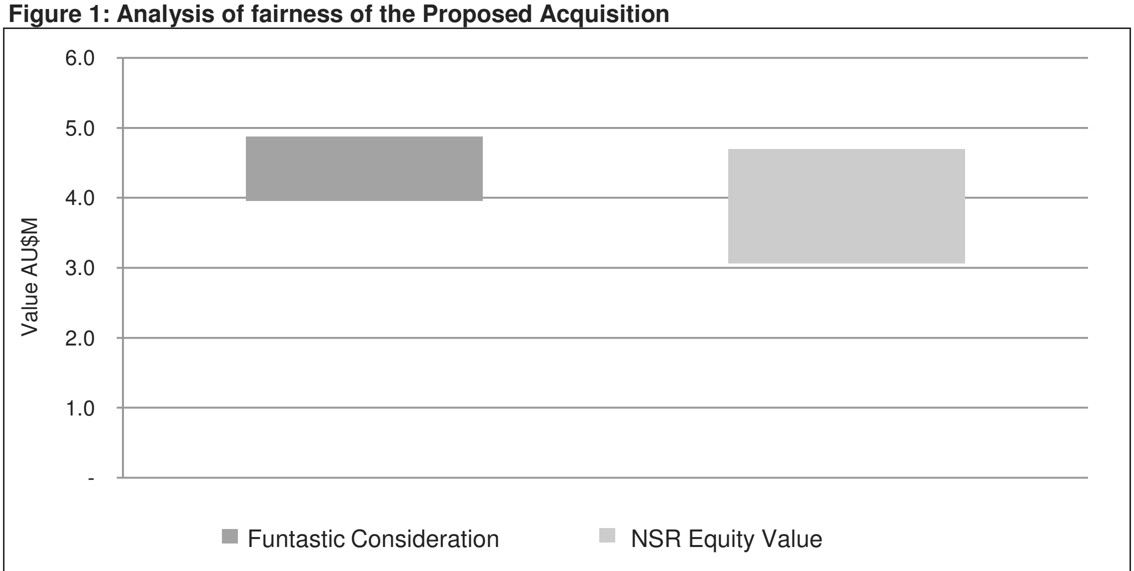
12. The consideration paid for the **Proposed Acquisition is considered to be fair** as the value of the Funtastic's shares to be issued to Pizmony entities is in the range of the assessed value of NSR (HK).

Table 1: Analysis of fairness of the Proposed Acquisition

	Low AU$'000s	High AU$'000s
NSR (HK)		
Future Maintainable Earnings - EBITDA	3,265	3,265
EBITDA Multiple	3.25x	3.75x
Enterprise value	**10,611**	**12,244**
Less: Bank Debt and Shareholder Loans	(7,550)	(7,550)
NSR (HK) Equity Value	**3,061**	**4,694**
Funtastic		
Shares Issued ('000s) [1]	**30,469**	**30,469**
Funtastic value per share	0.13	0.16
Funtastic consideration	**3,961**	**4,875**

Source: BDO Kendalls Securities Analysis
1 Total shares to be issued to the Pizmony Entities is calculated using the earn-out formula discussed in Section II of this report based on EBIT of AU$2.5 million for FY09 and FY10 and includes the 10,000,000 Guaranteed Converting Shares.

Figure 1: Analysis of fairness of the Proposed Acquisition



Source: BDO Kendalls Securities Analysis

13. We note that the value of NSR (HK) and the assessment of the fairness of the Proposed Acquisition are highly dependent upon the future maintainable earnings level of the business. If earnings of NSR (HK) decline to the level set out in Scenario 1 below, the consideration payable by Funtastic would be assessed as not fair. However, we are advised in the event that the aggregate of NSR (HK)'s earnings for the period commencing on 1 January 2009 and ending on 31 December 2013 is less than a minimum earnings threshold, no further repayment of the shareholder loans will be made. We note that at the future maintainable earnings level set out in Scenario 1 below, the shareholders loans would be repayable in full. The table below summarises the equity value of NSR (HK) under scenario 1 and 2 compared to the Funtastic consideration payable.

Table 2: Sensitivities of NSR (HK) Value Compared to Funtastic Consideration

	Low AU$'000s	High AU$'000s
Scenario 1		
NSR (HK)		
Future Maintainable Earnings – 70% achievement	2,285	2,285
EBITDA Multiple	3.25x	3.75x
Enterprise value	**7,426**	**8,569**
Less: Bank Debt and Shareholder Loans	(7,550)	(7,550)
Equity Value	**(124)**	**1,019**
Funtastic		
Shares Issued [1]	**10,000**	**10,000**
Funtastic Value per share	0.13	0.16
Funtastic consideration	**1,300**	**1,600**
Scenario 2		
NSR (HK)		
Future Maintainable Earnings – 85% achievement	2,775	2,775
EBITDA Multiple	3.25x	3.75x
Enterprise value	**9,019**	**10,406**
Less: Bank Debt and Shareholder Loans	(7,550)	(7,550)
Equity Value	**1,469**	**2,856**
Funtastic		
Shares Issued [1]	**16,177**	**16,177**
Funtastic Value per share	0.13	0.16
Funtastic consideration	**2,103**	**2,588**

Source: BDO Kendalls Securities Analysis
1 Total shares to be issued to the Pizmony Entities is calculated using the earn-out formula discussed in Section II and includes the 10,000,000 Guaranteed Converting Shares.

14. Shareholders should recognise that there is uncertainty in any estimate of the underlying value of shares in NSR (HK). Value is highly sensitive to the underlying assumptions of the NSR (HK) business model, the uncertainty surrounding the revenue of NSR (HK) through its Noddy and Distribution businesses, the outlook for the toy manufacturing and wholesaling industry, the AU$/US$ exchange rate and other economic factors. Further, we also note that any potential upside in NSR (HK)'s performance will result in a higher consideration being paid to the vendors; however, it will also provide greater benefits to Funtastic. Similarly, any delay in achievement of forecast revenue levels, such as sales from the Noddy agreement not occurring as forecast until 2010, will result in a reduction in the cost of the acquisition to Funtastic but not necessarily a corresponding reduction in the value of the NSR (HK) business to be acquired.

15. We have also completed an assessment of the implied EBITDA multiple based on the two reduced earnings scenarios set out in the table above. In completing this assessment we have applied a different level of earnings by assuming a 70% and 85% achievement of NSR (HK)'s forecast EBITDA, of AU$2.285 million and AU$2.775 million respectively. We note that these scenarios are presented as a percentage achievement of EBITDA and not revenue. If revenue is lower than forecast this may have a greater percentage impact on EBITDA due to the fixed nature of some of NSR (HK)'s operating expenses. Conversely, we have not taken into account potential synergies in operating expenses that may exist post completion of the Proposed Acquisition.

16. The scenario assessments are set out in the following table:

Table 3: Implied EBITDA Assessment Based on Different Earnings Scenarios

NSR (HK)	Low AU$'000s	High AU$'000s
Scenario 1		
Shares Issued [1]	**10,000**	**10,000**
Funtastic Value per share	0.13	0.16
Funtastic consideration	**1,300**	**1,600**
Add: Bank Debt and Shareholder Loans	7,550	7,550
Assumed Enterprise Value of NSR (HK)	**8,850**	**9,150**
EBITDA – 70% achievement	2,285	2,285
Implied EBITDA Multiple	**3.87**	**4.00**
Scenario 2		
Shares Issued [1]	**16,177**	**16,177**
Funtastic Value per share	0.13	0.16
Funtastic consideration	**2,103**	**2,588**
Add: Bank Debt and Shareholder Loans	7,550	7,550
Assumed Enterprise Value of NSR (HK)	**9,653**	**10,138**
EBITDA – 85% achievement	2,775	2,775
Implied EBITDA Multiple	**3.48**	**3.65**

Source: BDO Kendalls Securities Analysis

[1] Total shares to be issued to the Pizmony Entities is calculated using the earn-out formula discussed in Section II of the report based on an EBIT of AU$1.56 million for scenario 1 and AU$2.05 million for scenario 2 and includes the 10,000,000 Guaranteed Converting Shares.

17. The implied EBITDA multiples detailed in the above table are in the range of 3.5 to 4 times. The average and median historical EBITDA multiples observed from the comparable companies are 5.65 and 4.5 times respectively. Considering all of the factors detailed in Section XII we consider that the implied EBITDA multiples under Scenario 1 and Scenario 2 are within the range of the multiples that the market would expect for a business of this nature. On this basis, we consider **the Proposed Acquisition is fair.**

Foreign exchange sensitivity analysis

18. We note that in their assessment of the NSR (HK) financial performance, Funtastic adopted an exchange rate of 1AU$ = 0.65US$. The value of NSR (HK) and the Funtastic consideration payable under the Proposed Acquisition is highly sensitive to the AU$/US$ exchange rate. However, our sensitivity analysis detailed in paragraph 187 shows that under the structure of the Proposed Acquisition any movement in the NSR (HK) equity value due to the AU$/US$ exchange rate is largely offset by the movement in the number of Funtastic shares to be issued. As a result, the Proposed Acquisition under the various foreign exchange rate scenarios is still considered to be fair.

Assessment on the reasonableness of the Proposed Acquisition

19. The table below summarises the advantages and disadvantages of the Proposed Acquisition proceeding and the advantages and disadvantages of the Proposed Acquisition not proceeding.

Table 4: Summary of reasonableness of the Proposed Acquisition

Advantages & Disadvantages of the Proposed Acquisition Proceeding	
Advantages	**Disadvantages**
• The Proposed Acquisition and the Proposed Rights Issue are interdependent and the completion of these two transactions will place the Company in a stronger financial position. • Funtastic will be able to enhance its existing business operations and potentially achieve a level of vertical integration of operations. • The Proposed Acquisition should strengthen the overall corporate management of Funtastic and maximise the Company's business opportunities. • Funtastic will acquire several reputable worldwide licenses that can be integrated into the Company's existing portfolio of brands and increase the depth of its product range. • It will provide Funtastic with a natural US$ hedging position. • Funtastic (for no additional consideration) will be granted a pre-emptive right until 31 January 2010 to acquire 40% of the issued shares in ToyMonster. • The Proposed Acquisition will provide a potential opportunity to collaborate with NSR (HK)'s networks in order to maximise Funtastic's future business operations. • The achievement of synergies through utilising Funtastic's existing distribution channels by integrating Funtastic's international business with NSR (HK) and potential synergies in relation to product sourcing and cost saving in relation to manufacturing opportunities.	• There is uncertainty surrounding the timing and the ability of NSR (HK) to achieve its forecast sales and margins for the Noddy and Distribution businesses. • The issue of shares to the Vendors will result in dilution of the Non-Associated Shareholders' shareholding in the Company. • Following completion of the Proposed Transactions, the Mathieson Entities and the Pizmony Entities may have a substantial shareholding in Funtastic. The size of that shareholding will depend on the number of shares issued to the Pizmony Entities in connection with the Proposed Acquisition and the number of shares issued to the Mathieson Entities in connection with the Proposed Rights Issue, and could vary from a total of 11.2% to 60.3% of the shares in Funtastic (see paragraphs 94 – 97 below). The presence of the Mathieson Entities and the Pizmony Entities as substantial shareholders may act as a disincentive to any future takeover of Funtastic by a third party, assuming the Mathieson and the Pizmony Entities remain associates after implementation of the Proposed Transactions. Making this same assumption, the Mathieson Entities and the Pizmony Entities could subsequently make a takeover offer for the remaining Funtastic shares at a price that does not incorporate the same premium that a bidder who does not already have effective control of Funtastic may offer. However, since there are three shareholders of Funtastic who each hold an interest of 10% or more in Funtastic, it is possible that such shareholders could, separately or together, block any proposed takeover offer unless an appropriate premium was offered. • Funds raised under the Proposed Rights Issue may be partially required to fund the acquisition and NSR (HK)'s short-term working capital requirements and this may impact the Company's ability to meet its debt repayment strategy.

Advantages & Disadvantages of the Proposed Acquisition Not Proceeding	
Advantages	**Disadvantages**
• No dilution in the shareholding of Non-Associated Shareholders. • No exposure to the potential risks of the NSR (HK) business, which is still being established.	• Funtastic may experience increased pressure from financiers to reduce the Company's debt levels and may be required to seek alternative methods of raising capital and repaying debt. • Limited ability at present to grow Funtastic's existing business without acquiring either new brands or the ability to participate in the design and manufacture of toys. • As Funtastic has finite licenses for the toys it distributes, there is a risk that the licensors of these brands may decide to enter the distribution market themselves upon expiry of the existing licenses which would erode Funtastic's future financial performance. • The share price of the Company may be negatively impacted resulting in further funding and dilution risks for the Company and Non-Associated Shareholders, respectively.

Source: BDO Kendalls Securities Analysis

20. As the advantages of the Proposed Acquisition proceeding outweigh the disadvantages, we consider **the Proposed Acquisition to be reasonable**.

Proposed Rights Issue

21. In our opinion the Proposed Rights Issue (including the underwriting arrangements), on balance, is **fair and reasonable** to the Non-Associated shareholders of Funtastic.

22. In assessing whether we consider the Proposed Rights Issue is fair and reasonable to the Non-Associated Shareholders, we have considered the following factors:

- a comparison of the value of any consideration to be received under the Proposed Rights Issue to the estimated market value of Funtastic;
- the effect on the value of the Non-Associated Shareholders' shareholding in the Company; and
- the advantages and disadvantages of the Proposed Rights Issue proceeding and not proceeding.

Assessment on the fairness of the Proposed Rights Issue

23. The Proposed Rights Issue is being undertaken at $0.135 cents per share which represents a 15% discount to the 1 and 2 month VWAP pre-announcement of $0.16. Furthermore, the underwriter, Elsie May, is being paid an underwriting fee of 5%. It is common practice that the greater the discount, the lower the underwriting fee required to compensate the underwriter's risk, as it is more likely that the existing shareholders will participate in the rights issue if it is at a greater discount to the current share price. In our experience a discount of 15% to the 2 month VWAP pre-announcement in conjunction with an underwriting fee of 5% is reasonable and consistent with market practice. Further, we consider it is unlikely that alternative underwriting arrangements on significantly more favourable terms than those negotiated would be possible in the current market.

24. Our valuation assessment shows that Funtastic's value per share is in the range of AU$0.13 to AU$0.16 per share (refer to Section X). The issue price under the Proposed Rights Issue is AU$0.135 which is in the range of assessed Funtastic value per share. On this basis we consider **the Proposed Rights Issue is fair**. As a corollary of this, we also consider **that any increase in the relevant interest of the Mathieson Entities and/or the Pizmony Entities arising from the Underwriter acquiring any shortfall shares under the underwriting**

arrangements is fair. This is because the pricing of the Proposed Rights Issue gives all Funtastic's shareholders an equal opportunity on fair terms to preserve their proportionate shareholding and not have their interests diluted.

Assessment on the reasonableness on the Proposed Rights Issue

25. On the basis that the Proposed Rights Issue (including the underwriting arrangements), is fair we consider the terms of the **Proposed Rights Issue (including the underwriting arrangements) to be reasonable** to the Non-Associated Shareholders. We also refer you to the assessment of reasonableness of the Proposed Acquisition as set out above.

Other Matters

26. The decision of each shareholder as to whether to approve the Proposed Transactions is a matter for individual shareholders. This decision should be based on each shareholder's views as to matters including value and future market conditions, risk profile, liquidity preferences, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt, shareholders should consult an independent professional adviser.

27. The opinion should be read in conjunction with the full text of this report, which sets out our scope and findings.

28. Our opinion is based solely on information available at the date of this report as detailed in Appendix B.

BDO Kendalls

Structure of Report

29. The balance of this report is set out in the following sections:

Yours faithfully

PHILLIP W RUNDLE
Director

VERA BAUMGARTNER
Director

Glossary

Term	Definition
Act	Corporations Act 2001 (Cth)
ABC Learning Centres	ABC Group Ltd (Administrator Appointed)
AFSL	Australian Financial Services Licence
The Archer Consortium	A consortium led by Archer Capital Pty Ltd who proposed to acquire 100% of the shares in Funtastic during 2008
ASX	Australian Securities Exchange or ASX Limited or, as the context requires, the financial market conducted by it
ASIC	Australian Securities and Investment Commission
ATA	Australian Toy Association
BDO Kendalls Securities	BDO Kendalls Securities (NSW-VIC) Pty Ltd
Completion Date	The date on which the Proposed Acquisition is completed in accordance with its terms (expected to be mid August 2009)
Converting Shares	Shares which carry the same rights as existing ordinary shares in the Company (except for the terms relating to the earn-out formula and conversion mechanics) and will convert to a minimum of 10 million ordinary shares at the end of the earn-out period. Converting shares may convert to more than 10 million shares, depending on NSR (HK)'s financial performance during the earn-out period, to be determined in accordance with the relevant earn-out formula.
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
Elsie May or the Underwriter	Elsie May Holdings Pty Ltd, an entity associated with Mr Craig Mathieson
ESPO	Executive Share Option
Explanatory Notes	The Explanatory Notes issued by Funtastic that this report accompanies
FME	Future Maintainable Earnings
Funtastic or the Company	Funtastic Limited
Funtastic Share	Fully paid ordinary share in Funtastic
FY	Financial year ended 31 December
Guaranteed Converting Shares	10,000,000 Converting Shares which represent the minimum shares to be issued to Mr Nir Pizmony under the Proposed Acqusition
IER	This Independent Experts Report prepared by BDO Kendalls Securities
Mathieson	Mr Craig Mathieson
Mathieson Entities	Entities associated with Mr Craig Mathieson
Mattel	Mattel Inc
MGA	MGA Entertainment Inc
Murdoch	Mr Lachlan Keith Murdoch
NAB	National Australia Bank
Non-Associated Shareholders	The current shareholders of Funtastic excluding Mr Nir Pizmony, Mr Craig Mathieson and any associated parties
NSR (HK)	NSR (HK) Limited, a Hong Kong company
NSR PEAS	NSR PEAS Pty Ltd, an associated entity of Mr Nir Pizmony
Pizmony	Mr Nir Pizmony, a previous director of Funtastic and an associate of a shareholder of NSR (HK)
Pizmony Entities	Entities associated with Pizmony
Proposed Acquisition	The proposed acquisition by Funtastic of all the shares in NSR (HK) for 10 million fully paid ordinary shares in Funtastic and the assumption of bank debt and the obligation to repay shareholder loans totalling approximately AU$7.6 million
Proposed Rights Issue	1:1 rights issue at $0.135 cents per share to raise approximately $22 million fully underwritten by Mathieson Entities.
PSR	Performance Share Right
Significant Investors	Non-Associated Shareholders with > 4% shareholding in Funtastic
VWAP	Volume Weighted Average Price

BDO Kendalls

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AFS Licence No. 222 438

I FINANCIAL SERVICES GUIDE ("FSG")

BDO Kendalls Securities (NSW-VIC) Pty Ltd ABN 82 065 203 492 ("**BDO Kendalls Securities**" or "**we**" or "**us**" or "**ours**" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

1 FINANCIAL SERVICES GUIDE

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ("**FSG**"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

The FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No: 222438
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- Any relevant associations or relationships we have; and
- Our complaints handling procedures and how you may access them.

2 FINANCIAL SERVICES WE ARE LICENSED TO PROVIDE

We hold an Australian Financial Services Licence which authorises us to provide general financial product advice to retail and wholesale clients on securities and interests in managed investment schemes.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

3 GENERAL FINANCIAL PRODUCT ADVICE

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

4 FEES, COMMISSIONS AND OTHER BENEFITS THAT WE MAY RECEIVE

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees will be agreed on an hourly basis or as a fixed amount depending on the terms of the agreement.

Except for the fees referred to above, neither BDO Kendalls Securities, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

5 REMUNERATION OR OTHER BENEFITS RECEIVED BY OUR EMPLOYEES

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

6 REFERRALS

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

7 ASSOCIATIONS AND RELATIONSHIPS

BDO Kendalls Securities is a wholly owned subsidiary of BDO Kendalls (NSW-VIC) Pty Ltd, which is a member of an Australian association of independent accounting and management consulting firms trading under the name of "BDO Kendalls".

From time to time BDO Kendalls Securities or BDO Kendalls and/or BDO related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

8 INDEPENDENCE

BDO Kendalls Securities is independent of the entity that engages it to provide a report. The guidelines for independence in the preparation of reports are set out in the Regulatory Guide 112 issued by the Australian Securities and Investments Commission in October 2007. BDO Kendalls Securities operates independently of the other members of BDO International in Australia.

9 COMPLAINTS RESOLUTION

9.1 INTERNAL COMPLAINTS RESOLUTION PROCESS

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, BDO Kendalls Securities, GPO Box 2551, Sydney NSW 2001.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

9.2 REFERRAL TO EXTERNAL DISPUTE RESOLUTION SCHEME

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service Limited ("**FOS**"). FOS is an independent company that has been established to impartially resolve disputes between consumers and participating financial services providers.

BDO Kendalls Securities is a member of FOS (Member Number 11281).

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service Limited
GPO Box 3
MELBOURNE VIC 3001

Toll free: 1300 78 08 08
Facsimile: (03) 9613 6399

10 CONTACT DETAILS

You may contact us using the details set out at the top of our letterhead of this FSG.

II TERMS OF THE PROPOSED TRANSACTIONS

The Proposed Acquisition

30. On 19 February 2009 Funtastic announced the Proposed Acquisition, being an acquisition of all of the shares in NSR (HK) by way of an offer comprising 10 million Funtastic Converting Shares, the assumption of bank debt and the obligation to repay shareholder loans expected to total not more than AU$7.55 million. The balance of the consideration will be based on an earn out formula linked to the performance of NSR (HK) 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. The earn-out is over a two year period and as such the multiples are weighted 50% in each year (refer section VI). The maximum number of shares that can be issued to the Pizmony Entities as consideration including both the Guaranteed Converting Shares and shares issued under the above earn-out formula is 50 million. Further, if the financial performance of NSR (HK) is such that the vendors would, based on the relevant earn out formula, be entitled to receive consideration equal in value to an amount greater than the value of the maximum number of shares that may be issued, Funtastic will pay that additional amount in cash up to a maximum amount of AU$5 million. This earn out formula is discussed further in Section VI of this report.

31. The Converting Shares to be issued under the Proposed Acquisition carry the same rights as existing ordinary shares in the Company.

32. Shares issued under the Proposed Acquisition will be held in escrow for a following period:
    - the 10 million Converting Shares will be held in escrow for a period of 24 months from the Completion Date;
    - the shares issued in respect of the first earn out period ending 31 December 2009 will be held in escrow for a period of 24 months from the Completion Date; and
    - the shares issued in respect of the second earn out period ending 31 December 2010 will be held in escrow for a period of 24 months from the Completion Date.

33. The shareholder loans to be assumed as part of the Proposed Acquisition totalling AU$1.3 million will be repaid in two tranches:
    - AU$0.65 million will be repaid by the later of 1 July 2009 or the business day after completion of the Proposed Rights Issue; and
    - AU$0.67 million (inclusive of interest of AU$16,250 calculated at a rate of 5% per annum from 1 July 2009 to 31 December 2009) will be repaid on 1 January 2010.

    The remaining balance of the shareholder loans are repayable in full on the later of the end of the earn out period or NSR (HK) achieving cumulative EBIT equal to a minimum earnings threshold. If the aggregate of NSR (HK)'s earnings for the period commencing on 1 January 2009 and ending on 31 December 2013 is less than the minimum earnings threshold, no further repayment of the shareholder loans will be made.

34. The offer is subject to a number of key conditions, including:
    - completion of the Proposed Rights Issue;
    - Funtastic being satisfied that the financial performance of NSR (HK) for the year ended 31 December 2008 meets an EBIT threshold of $500,000 (subject to various adjustments);
    - Funtastic obtaining any shareholder, financier and regulatory approvals;
    - Pizmony and Mathieson approving the terms on which the financier agrees to provide finance to Funtastic post the Proposed Acquisition;
    - the Mathieson Entities being satisfied as to the results of their due diligence investigations into Funtastic; and
    - Funtastic and the Mathieson Entities being satisfied as to the results of each of their due diligence investigations into NSR (HK).

35. Further details on the Proposed Acquisition are set out in Funtastic's Explanatory Notes that this report accompanies.

Proposed Rights Issue

36. The Company also proposes to conduct a one for one pro-rata non-renounceable rights issue of new ordinary shares in Funtastic at an issue price of AU$0.135 per share to raise approximately AU$22.3 million or approximately AU$21.2 million after costs. We note that the Underwriting Agreement for the Proposed Rights Issue is subject to the following terms:

- To be completed on a 1:1 basis.
- Shares to be issued at AU$0.135 cents per share;
- Elsie May Holdings Pty Ltd, an entity associated with Mathieson, is being paid an underwriting fee of 5%; and
- The underwriting agreement includes numerous conditions upon which the Underwriter may terminate the underwriting agreement, including, but not limited to, the following:
  - > the ASX All Ordinaries Index falls greater than or equal to 15% below its level as at the date of the underwriting agreement;
  - > the twenty day VWAP for a share of Funtastic falls greater than or equal to 15% below its twenty day VWAP for a share of Funtastic as at the date of the underwriting agreement; or
  - > any material adverse changes in financial markets occur.

37. Further details on the Proposed Rights Issue and the underwriting arrangements are set out in Funtastic's Explanatory Notes that this report accompanies.

III PURPOSE AND SCOPE OF THE REPORT

Purpose of the Report

38. ASX Listing Rule 10.1 provides that a listed company must ensure that neither it nor any of its child entities, being subsidiaries and controlled entities, acquire a "substantial asset" from, or dispose of a "substantial asset" to, a substantial holder, amongst others, without the approval of holders of ordinary securities.

39. ASX Listing Rule 10.2 states that "an asset is substantial if its value, or the value of the consideration for it, is, or in the ASX's opinion is, 5% or more of the equity interests of the entity set out in the latest accounts given to the ASX under the listing rules."

40. Pizmony, a previous director of Funtastic, via an associated entity, NSR PEAS Pty Ltd ("**NSR PEAS**"), and Pizmony's brother, Mr Hod Pizem, currently hold 60% and 40% of the shares in NSR (HK) respectively. Pizmony, Mr Hod Pizem, together with their associates, have, during the 6 months prior to when the Proposed Acquisition is expected to be completed, held a relevant interest in more than 10% of the voting securities in the Company. Accordingly the Proposed Acquisition is considered to be the acquisition of a "substantial asset" from a related party for the purpose of Listing Rule 10.1.

41. The Proposed Acquisition is considered to be the acquisition of a "substantial asset" from a related party for the purpose of Listing Rule 10.1.

42. ASX Listing Rule 10.2 also indicates that the consideration paid is only one factor in determining whether the asset is substantial. The value of the asset is also important. Separate transactions will also be aggregated if, in ASX's opinion, they form part of the same commercial transaction.

43. ASX Listing Rule 10.10 provides that a Notice of Meeting under ASX Listing Rule 10.1 must include a voting exclusion statement, and a report on the relevant transaction from an independent expert. The independent directors of Funtastic have requested BDO Kendalls Securities to independently assess whether the Proposed Acquisition is fair and reasonable to Non-Associated Shareholders to satisfy this obligation.

44. Furthermore, section 606(1) of the Corporations Act ("**the Act**") provides a general prohibition to any person acquiring a relevant interest of more than 20% in an Australian listed company or an unlisted company with more than 50 members. There are various exemptions to this rule set out in Section 611 of the Act. Under item 7 of Section 611 of the Act, such an acquisition is allowed if a majority of the Company's non-associated shareholders pass an ordinary resolution at a general meeting approving the acquisition.

45. ASIC Regulatory Guide 74 (paragraph 11) recommends that a company seeking shareholder approval for a Section 611 Item 7 transaction provide shareholders with either an analysis by the independent directors or an independent expert's report stating whether the proposed transaction is fair and reasonable when considered in the context of the interests of the shareholders, other than those involved in the proposed transaction or persons associated with such persons (ie. The non-associated shareholders). Accordingly, Funtastic has requested BDO Kendalls Securities to prepare an IER for the Proposed Acquisition, for the benefit of Funtastic's Non-Associated Shareholders.

46. We are advised that the Pizmony and Mathieson Entities are considered to be "associates" and as they may hold more than 20% of the shares subsequent to the Proposed Transactions, the preparation of this IER is also required under Section 611 Item 7 of the Act for the Proposed Rights Issue and underwriting arrangements. Specifically, Funtastic has requested BDO Kendalls Securities to provide an IER for the Proposed Rights Issue (including the underwriting arrangements), expressing an opinion on whether any increase in the relevant interest of the Mathieson Entities and/or the Pizmony Entities arising from the Underwriter acquiring any shortfall shares under the underwriting arrangements is fair and reasonable.

47. BDO Kendalls Securities' opinion should not be construed as a recommendation as to whether or not to vote in favour of the Proposed Transactions. Approval or rejection of the Proposed Transactions is a matter for individual shareholders based on their own circumstances, i.e. risk, investment objectives, investment portfolio and tax positions. Funtastic's shareholders should consult their own financial advisors.

Our Approach

48. There is no definition of the term "fair and reasonable" in Chapter 10 of the Listing Rules or the Act. However, it is common practice for an independent expert to approach a report pursuant to Listing Rule 10.1 in a similar manner to a report required under item 7 of Section 611 of the Corporations Act.

49. The term "fair and reasonable" does not have any statutory definition, although, over time, a commonly accepted meaning has evolved. Regulatory Guides issued by ASIC, in particular Regulatory Guide 111 provides some guidance to the use of that term.

50. Regulatory Guide 111 attempts to provide a precise definition of fair and reasonable. The Regulatory Guide continues earlier regulatory guidelines that created a distinction between "fair" and "reasonable". Fairness is said to involve a comparison of the offer price with the value that may be attributed to the securities or assets that are the subject of the offer based on the value of the underlying businesses and assets. Reasonableness is said to involve an analysis of other factors that shareholders might consider prior to approving a proposed transaction, such as:

- the existing voting power in securities in the Company of parties to the proposed transaction;
- other significant shareholdings;
- the probability of alternative transactions and the value to alternative parties;
- benefits achieved through a 100% holding of the acquired such as tax losses or cash flow;
- any special value of the acquired to the acquirer such as particular technology or the potential to write off outstanding loans;
- the liquidity of the market for the acquired company's shares; and
- the likely market price if the offer is unsuccessful.

51. For the purpose of this report, BDO Kendalls Securities has treated "fair" and "reasonable" as separate concepts in accordance with Regulatory Guide 111. Fairness is a significantly higher and more demanding test than reasonableness. The Regulatory Guide states that a "fair" offer will always be reasonable but a "reasonable" offer will not necessarily be "fair".

52. For the purpose of our opinion, market value is defined as the price that could be negotiated in an open and unrestricted market between a willing, knowledgeable but not anxious buyer and a willing, knowledgeable but not anxious vendor acting at arm's length, each believing that they have complete information with respect to the asset being sold.

53. In forming our opinion as to whether the Proposed Transactions are fair, we have had regard (inter alia) to the following factors:

- the value of the assets being acquired;
- the terms and conditions of the Proposed Transactions; and

- the potential impact of the Proposed Transactions on the financial performance and financial position of Funtastic and the impact on the value of the non-associated members' shareholding.

54. We have also given due consideration to relevant matters in other ASIC guidelines, including Regulatory Guide 112 (Independence of Experts' Reports) and Regulatory Guide 170 (Valuation Reports and Profit Forecasts). The Regulatory Guides reflect ASIC's underlying philosophy that the premium for control of a company be shared by all members of that company.

Information Used

55. In preparing this report, we have used and relied upon the information set out in Appendix B and representations made by management of Funtastic. We have conducted checks, enquiries and analysis on the information provided to us that we consider appropriate for the purpose of this report. Based on this evaluation, we consider that the information used as the basis for forming the opinions in this report is accurate, complete and not misleading and we have no reason to believe that material information relevant to our report has been withheld. Whilst our work has involved an analysis of financial information, it does not constitute an audit of Funtastic in accordance with Australian Auditing Standards and, accordingly, no such assurance is given in this report.

56. BDO Kendalls Securities has been provided with historical information prepared by Funtastic and NSR (HK) and whilst BDO Kendalls Securities has in part relied upon this information in preparing this report, Funtastic remains responsible for all aspects of this information.

57. Our assessment has been made as at the date of our report. Economic conditions, market factors and performance change may result in this report becoming outdated. We reserve the right to review our assessments and, if we consider it necessary, to issue an addendum to our report in light of any relevant material information that subsequently becomes known to us prior to the approval of the Proposed Transactions by the Non-Associated Shareholders.

58. Shareholders should recognise that there is significant uncertainty in any forecast financial information and the use of forecast financial information in determining value involves significant risk. Value is highly sensitive to the underlying assumptions of the Funtastic and NSR (HK) forecast financial information.

Scope Exclusions

59. This report has been prepared solely for the purpose of assisting the Non-Associated Shareholders of Funtastic in considering whether to approve the Proposed Transactions. This report has not been prepared to provide information to parties considering the purchase or sale of any equity or other security in Funtastic. Accordingly, we do not assume any responsibility or liability for any losses suffered as a result of the use of this report contrary to the provisions in this paragraph.

IV OVERVIEW OF THE TOY WHOLESALING AND DISTRIBUTION INDUSTRY IN AUSTRALIA

60. Funtastic markets and distributes consumer branded lifestyle merchandise predominantly within children's segments such as toys (including electronic media such as DVDs), apparel and footwear. Its major competitors include Mattel, Hasbro, Pacific Brands and Playcorp.

61. According to data published by IBISWorld, the toy and sporting good wholesaling industry in Australia is in the declining stage of its lifecycle which is evidenced by real growth in revenue averaging only 1% per annum for the past 5 years. Key factors provided by IBISWorld to explain this trend include:

- there is product saturation within existing product markets which are well catered for;
- an increase in competing substitutes such as video games and other electronic media (a market to which Funtastic has exposure through its MadMan business); and
- increasingly difficult to stimulate demand by enhancing product performance and as such improvements are often cosmetic.

62. The industry segment in which Funtastic operates is subject to voluntary standards developed by Standards Australia, a Federal Government Commission. Whilst the standards are voluntary, the Australian Toy Association ("**ATA**") strongly advocates adherence for its members, of which Funtastic is one.

63. The barriers to entry to the toy and sporting good wholesaling industry are considered medium due to the following factors:

- wholesalers need to obtain the licences for the products they market and distribute from major overseas manufacturers, which may be difficult for new participants, especially given the industry is demonstrating a greater reliance on licensed products;
- high capital requirements associated with the set up of warehouse and distribution systems;
- the industry is highly competitive on price and firms achieve relatively low margins which makes entrance to the market difficult; and
- the current major participants (of which Funtastic is one) exhibit market dominance.

64. There are several established competitors in the market segment in which Funtastic operates. Competition in this industry is influenced by a number of factors, including:

- price: the wholesaling industry is highly competitive on price as their customers, the retail stores, want to maximise their profits by paying the lowest price and due to the industry's size and seasonality, price competition is intense;
- location: the location of a distribution outlet, and hence the delivery time and cost, is important to this industry's customers;
- product availability and range: those wholesalers with the licenses for the products demanded by retailers and end consumers are those that can be most competitive; and
- brand name and reputation: the ability to attract retailers with the quality of the products and services of the business.

65. Concentration levels for this industry are regarded as low with the four major participants expected to account for less than 40% of the available market share in 2008-09. The low concentration level may be attributed to the price competitive nature of this industry, which is subject to moderate profit margins on industry products.

66. Industry revenue is expected to increase at an average annualised rate of 1.4% per annum over the five years to 2013-14. Industry revenue for 2007-2008 was approximately $3.5 billion (60% sporting goods and 40% toys).

67. The future of this industry is dependent upon the level of retail consumption of toy and sporting goods, which in turn will be affected by real household disposable income levels, GDP levels, leisure and recreational activity expenditure levels and exchange rates as well as changes in population characteristics. Additional demand determinants considered to effect the toy and sporting goods wholesaling industry include:

- Household disposable income – as this increases so to will sales in the industry as consumers' discretionary spending increases;
- Seasonality – over 45% of toy retail sales occur in the fourth quarter of the calendar year in the lead-up to Christmas;
- Population characteristics – toys are primarily used by the youth market and as such the size of this demographic has an effect on demand;
- Consumer preferences – toys compete with other items for 'youth spend' and as children move toward electronic and video games, demand for general toys will decrease;
- Distribution – the ability of wholesales to get their product to retailers promptly and efficiently is key to demand from retailers;
- Brand portfolio – the more brands a wholesaler distributes, the more likely that a preferential supplier relationship can be established; and
- Effect of retracting economy – the global financial crisis and the retracting Australian economy has led to a reduction in consumers' discretionary spending which may decrease sales in the industry.

V PROFILE OF FUNTASTIC

Company Overview

68. Funtastic was founded in 1994. Its principal activity is the wholesale of licensed consumer goods especially in children's product categories such as toys (including electronic media such as DVDs), education material, apparel and footwear.

69. We are advised that the Company's strategy is to obtain the Australian and/or global licenses for popular branded consumer lifestyle products (particularly children's toys) and market and distribute those products within the Asia Pacific region. The Company is recognised as one of the market leaders within the industry that include Playcorp, Pacific Brands and the Australian divisions of Mattel and Hasbro.

70. Funtastic undertook an initial public offering and listed on the ASX on 14 September 2000.

71. In December 2006, Funtastic announced that it acquired Judius Group, a wholesaler and distributor of toys, learning and educational products, from ABC Learning Centres Limited ("**ABC Learning Centres**"). Simultaneously with this acquisition, Funtastic entered into a global venture to supply ABC Learning Centres with toys, learning and educational products, nursery hard goods and juvenile furniture.

72. In November 2008, ABC Learning Centres was put into external administration and this is expected to have an adverse effect on the future earnings of Funtastic. As a result, Funtastic conducted a review of its business operations and announced significant write-offs and provisions for the year ended 31 December 2008. The details of the significant write-offs and provisions are explained in paragraph 75.

73. On 19 February 2009, Funtastic announced a number of initiatives as part of its restructuring program that included the Proposed Transactions and changes to senior management.

Historical Financial performance

74. Funtastic's audited financial performance for the years ended 31 December 2006 ("**FY06**"), *2007 ("**FY07**") and 2008 ("**FY08**") are shown below.*

Table 5: Funtastic Consolidated Historical Financial Performance

Funtastic Statement of Financial Performance	Audited 31-Dec-06 AU$'000s	Audited 31-Dec-07 AU$'000s	Audited 31-Dec-08 AU$'000s
Revenue from the sale of goods			
Gross revenue	398,749	411,749	394,396
Less settlement discounts and rebates	(39,013)	(42,993)	(36,738)
Revenue from the sale of goods	**359,736**	**368,756**	**357,658**
Cost of sale of goods	(242,620)	(254,234)	(239,577)
Gross Profit	**117,116**	**114,522**	**118,081**
Gross Margin (%)	***32.56%***	***31.06%***	**33.0%**
Other Income			
Interest from bank deposits	364	231	416
Commissions received	2,121	978	974
Other	430	6,314	7,453
Discontinued operations	-	18,501	1,716
Total Other Income	**2,915**	**26,024**	**10,559**
Expenses			
Warehouse and distribution	(25,754)	(31,144)	(24,420)
Marketing and selling	(47,060)	(46,720)	(57,025)
Administration	(16,467)	(18,718)	(14,413)
Depreciation	(2,255)	(2,541)	(3,015)
Amortisation	(4,267)	(5,204)	(2,457)
Finance costs	(6,889)	(9,180)	(8,364)
Total Expenses	**(102,692)**	**(113,507)**	**(109,694)**
Other Items			
Significant items	-	-	(83,368)
Discontinued operations	-	(19,352)	(3,546)
Gain on disposal of discontinued operations	-	-	4,212
Total Other Items	**-**	**(19,352)**	**(82,702)**
Profit Before Income Tax	**17,339**	**7,687**	**(63,756)**
Income Tax Expense	(5,271)	(2,534)	12,909
Net Profit/(Loss)	**12,068**	**5,153**	**(50,847)**

Source: Funtastic's Annual Report 2007 and 2008

75. In relation to Funtastic's historical performance, the following comments are made.

- In FY07 Funtastic recorded a reduction in net profit of $6.9 million resulting primarily from the underperformance of the toy division. The reasons for this underperformance include poor inventory stock management and purchasing decisions.
- In FY08 Funtastic generated a net loss of $50.8 million. We note that this included the following non-recurring revenue and expense items:
  - > write-offs and provisions for bad and doubtful debts owed by entities that are part of ABC Learning Centres (Administrator Appointed) - $18.8 million;
  - > write-off of the unamortised portion of the intangible asset recognised on the purchase of Judius Group for the world wide exclusive purchasing contract with ABC Learning Centres - $36.0 million;
  - > impairment of goodwill for the Soft Goods business due to unfavourable trading conditions - $13.1 million .We note that on 21 April 2009 Funtastic announced that they had received a number of enquires about the Soft Goods business and had appointed KPMG Corporate Finance to evaluate their potential options;
  - > impairment of goodwill for the New Zealand toy business due to unfavourable trading conditions - $1.3 million;

> impairment of material contracts and other arrangements based on a review of the likely sales over the life of those contracts - $13.7 million;

> expenses associated with the unsuccessful bid by Archer Capital - $0.5 million; and

> loss from discontinued operations of the publishing business ($1.0 million net of tax) and gain on disposal of discontinued operations of the publishing business ($2.5 million net of tax)

- Excluding the non-recurring items, the Company would have incurred a net profit before tax of $17.2 million. This increase in adjusted profit over the results from FY07 is a result of the turnaround of the toy division from a $2.2 million loss in FY07 to an $11.1 million profit in 2008. This gain was partly offset by a loss in the apparel division.

Financial position

76. The table below summarises Funtastic' balance sheet as at 31 December 2007 and 31 December 2008.

Table 6: Funtastic' Consolidated Balance Sheet

Funtastic Balance Sheet	Audited 31-Dec-07 AU$'000s	Audited 31-Dec-08 AU$'000s
Current assets		
Cash	2,726	5,769
Trade and other receivables	66,773	56,225
Inventories	53,469	55,982
Other	31,153	28,714
Current tax assets	6,231	2,109
Other financial assets	2,049	-
Total current assets	**162,401**	**148,799**
Non-current assets		
Property, plant and equipment	7,167	6,019
Goodwill	112,481	97,634
Other intangibles	39,133	676
Other	6,100	-
Deferred tax assets	4,797	5,396
Total non-current assets	**169,678**	**109,725**
Total assets	**332,079**	**258,524**
Current liabilities		
Trade and other payables	18,203	22,571
Borrowings	37,779	23,463
Provisions	2,169	9,251
Interest bearing deferred purchase consideration	2,400	2,261
Other	24,423	23,067
Other Financial Liabilities	260	2,305
Total current liabilities	**85,234**	**82,918**
Non-current liabilities		
Borrowings	50,000	49,370
Provisions	950	903
Deferred tax liabilities	22,517	9,083
Interest bearing deferred purchase consideration	6,705	4,469
Total non-current liabilities	**80,172**	**63,825**
Total liabilities	**165,406**	**146,743**
Net assets	**166,673**	**111,781**
Equity		
Issued capital	137,201	137,201
Retained profits / (accumulated deficit)	26,535	(24,312)
Reserves	2,937	(1,108)
Total equity	**166,673**	**111,781**

Source: 2008 Audited Financial Statements

77. In relation to Funtastic's historical financial position, the following comments are made.

- The reduction in goodwill and other intangibles is a result of the write-downs and impairments discussed at paragraph 75.
- Other current and non current assets in 2007 include prepaid royalties and other prepayments, part of which have been written off in 2008 as discussed in paragraph 75.
- Reduction in the current ratio (current assets / current liabilities) and quick ratio (cash & debtors / creditors) from 1.91 to 1.79 and 3.82 to 2.75 is mainly due to the write-off of trading receivables related to ABC Learning Centres. The following reasons also contributed to the reduction in Funtastic's current ratio:
  - The decrease of current tax assets as a result of lower profit during 2008;
  - The decrease of other financial assets and the increase in other financial liabilities is a result of the Company's interest rate swap being "in the money" in 2007 and "out of the money" in 2008;
  - Reduction in net bank debt to $67.1 million from $85.1 million as part of the plan to reduce Funtastic's financial gearing; and
  - Increase in provisions as a result of $7.2 million in restructuring provisions relating to the US and Australian operations of the Judius business.

VI SHARE CAPITAL AND OWNERSHIP OF FUNTASTIC

Recent Share Transactions

78. Funtastic shares were listed on the ASX in September 2000. As at the date of our report the total Funtastic' shares, rights and options on issue are as follow:

Table 7: Funtastic' Capital Structure

Type of Security	No.
Outstanding ordinary shares	165,498,841
Total Ordinary Shares	**165,498,841**
Unlisted securities	
Performance Share Rights ("**PSRs**")	392,500
Executive Share Options ("ESOPs")[1)]	200,000
Ordinary Options[1)]	1,500,000
Total Unlisted Securities	**2,092,500**

Source: Funtastic Management

1) ESOPs and Ordinary Options issued to MGA are collectively referred to as "Options"

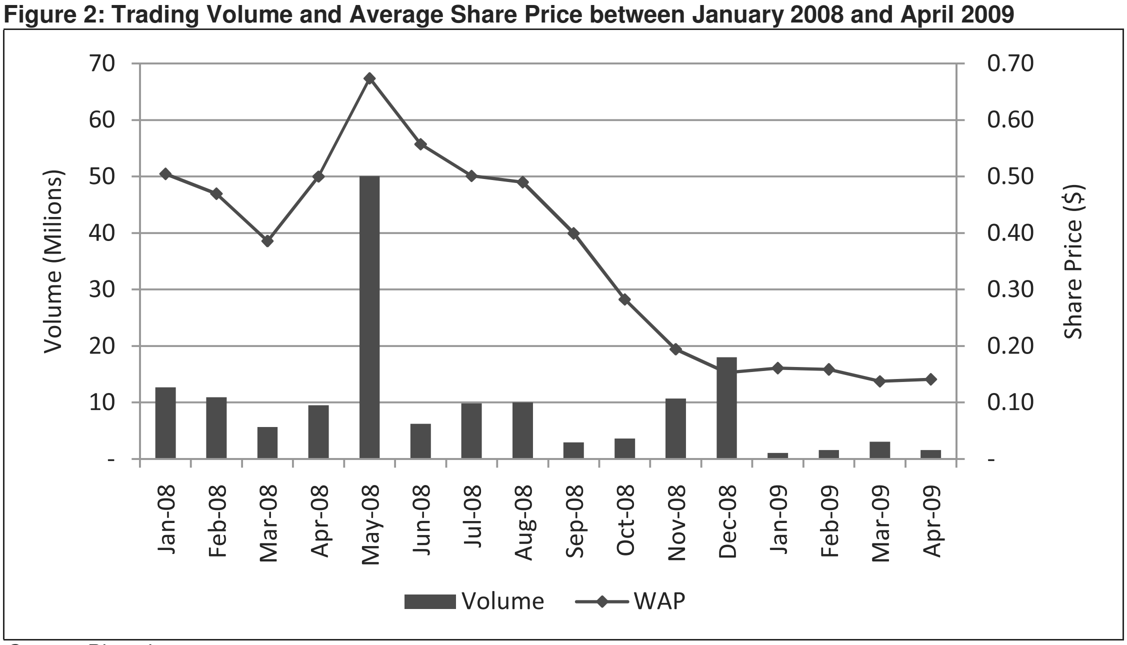
79. The above PSRs and ESOPs are subject to performance conditions involving earnings per share and total shareholder return and were issued pursuant to Funtastic's long term incentive plan.

Share Price and Volume History

80. The following chart provides a summary of the monthly weighted average trading prices and volumes in Funtastic' shares from January 2008 to April 2009.

81. The monthly average trading price is determined by dividing the total value of shares traded by the number of shares. Under this approach, the high and low prices for the period may not be identified in the graph below.

Figure 2: Trading Volume and Average Share Price between January 2008 and April 2009



Source: Bloomberg

82. In March and May 2008, the share price of Funtastic increased from a volume weighted average price ("**VWAP**") of $0.39 per share in March 2008 to $0.67 per share. In its letter to the ASX dated 4 April 2008, Funtastic advised that the Company was not aware of any announcements which potentially could explain the increase in the share price. We note that the Company requested a trading halt on 19 May 2008 before announcing that they had

received a non binding indicative proposal to acquire 100% of Funtastic shares at $0.80 per share by a consortium led by Archer Capital Pty Ltd ("**the Archer Consortium**") on 21 May 2008.

83. The decline in the VWAP since May 2008 has been consistent with the market generally with the shares peaking at $0.73 per share on 21 May 2008 and declining to $0.11 per share on 12 March 2009. We note that during this period the following price sensitive announcements were made to the market:

- discussions with the Archer Consortium continued until 19 August 2008 when they concluded due to negotiations failing to reach agreement. We note that since the announcement on 21 May 2008 of the non binding acquisition proposal from the Archer Consortium until 19 August 2008, Funtastic's share price had been in a declining trend. The declining trend in the share price is closely related to the global share market trend generally during that period. However, we note that Funtastic's share price dropped by more than $0.10 per share when the termination of the proposal from the Archer Consortium was announced;

- on 18 July 2008, Funtastic's closing share price increased from $0.455 per share to $0.56 per share. ASX queried the increase and the Company advised that management had no knowledge as to the cause of the significant increase;

- on 7 November 2008, Funtastic announced that the appointment of Receivers and Voluntary Administrators to ABC Learning Centres could have a material adverse impact on the earnings of Funtastic due to Judius' contract with ABC Learning Centres;

- on 5 December 2008, Funtastic announced that it was determining the impact of the court ruling granting an injunction to Mattel Inc ("**Mattel**") against MGA Entertainment Inc ("**MGA**") in relation to MGA's legal right to manufacture and sell 'Bratz' branded toys and products;

- on 9 December 2008, Lachlan Keith Murdoch ("**Murdoch**") announced that he had become a substantial holder in Funtastic, purchasing 22,483,138 (13.59%) of the Company's ordinary shares at between $0.14 and $0.15 per share;

- on 19 February 2009, Funtastic provided a trading update and details of significant write-downs for the financial year ended 31 December 2008 totalling $80 million (discussed at paragraph 75) which resulted in a $50 million loss for the year (announced on 27 February 2009 in the Preliminary Final Report); and

- further on 19 February 2009, Funtastic announced the Proposed Transactions. We note that subsequent to the announcements on 19 February 2009, Funtastic's share price has traded in the range of $0.11 to $0.18 as noted in Table 9 below.

Trading in Funtastic Shares

84. An analysis of the trading volume in Funtastic' shares prior to and following the announcement of the Proposed Transactions is set out below.

Table 8: Trading liquidity in Funtastic' shares pre announcement

Period Prior to 19 February 2009	High cents	Low cents	VWAP	Volume	As a % of issued shares
1 Week	0.18	0.15	0.17	617,858	0.4%
1 Month	0.18	0.15	0.16	1,428,262	0.9%
2 Months	0.19	0.14	0.16	2,350,994	1.4%
6 Months	0.44	0.12	0.22	41,693,299	25.2%
12 Months	0.73	0.12	0.48	132,901,557	80.3%

Source: Bloomberg

Table 9: Trading liquidity in Funtastic' shares post announcement

Period from 20 February to 30 April 2009	High cents	Low cents	VWAP	Volume	As a % of issued shares
Post Announcement	0.18	0.11	0.14	5,258,954	3.2%

Source: Bloomberg

Ownership Structure

85. The ownership structure of Funtastic as at 25 March 2009 was as follows:

Table 10: Top 20 Holding – Ordinary Shares

Ordinary Shares	17 January 2008
Total Ordinary shares on issue	165,498,841
Top 20 shareholders - ordinary shares[1]	101,308,619
Top 20 Shareholders - percentage of ordinary shares on issue	61.21%

Source: Funtastic Management
[1]*Top 20 Shareholders as at 25 March 2009*

86. The spread of Funtastic shareholders as at 25 March 2009 is as follows:

Table 11: Shareholder Spread

Range of Shares Held	Number of Shareholders	Number of Optionholders	Number of PSRs
1-1,000	1,084	-	-
1,001-5,000	2,539	-	2
5,001-10,000	1,078	-	1
10,001-100,000	1,179	-	17
100,001 and over	101	3	-
Total	**5,981**	**3**	**20**

Source: Funtastic Management

Effect of the Proposed Transactions on the Current Capital Structure

Earn-Out Formula

87. As mentioned in Section II the Proposed Acquisition includes 10 million guaranteed Converting Shares at $0.135 per share issued to the Pizmony Entities ("**Guaranteed Converting Shares**") and additional shares issued based on an earn-out formula linked to the performance of NSR (HK) during 2009 and 2010.

88. The total debt to be assumed by Funtastic is expected to be not more than AU$7.55 million and consists of AU$2.31 million bank debt and AU$5.24 million shareholders' loans. This total debt will be used in calculating the total shares to be issued under the earn-out formula.

89. During 2009, the agreed formula for determining if any additional shares are to be issued to the Pizmony Entities will be calculated by multiplying the 2009 EBIT of NSR (HK) by 2.25 and then subtracting 50% of the debt assumed by Funtastic. This will determine the value of the consideration to be allocated to the Pizmony Entities. The amount determined is to be converted to shares at $0.135 per share (the price at which the Proposed Rights Issue is to be conducted). A template of how this is calculated is presented in the table below.

Table 12: 2009 earn-out template

Formula		Template earn-out calculation AU$
	2009 EBIT of NSR (HK)	x,xxx,xxx
x	multiple of 2.25 (ie. 4.5 x 50%)	x,xxx,xxx
-	50% of total debt assumed by Funtastic[1]	x,xxx,xxx
=	Additional consideration allocated to the Pizmony Entities	x,xxx,xxx
/	Price at which Proposed Rights Issue is conducted	0.135
=		**x,xxx,xxx shares[2]**

Source: Funtastic Management, BDO Kendalls Securities Analysis

[1]The maximum debt level assumed by Funtastic is expected to be AU$7.55 million.

[2] No shares will be issued under the earn-out if FY09 EBIT is less than AU$1.68 million and is therefore not sufficient to cover the 50% of total debt assumed by Funtastic

90. During 2010, the agreed formula for determining if any additional shares are to be issued to the Pizmony Entities is calculated in a slightly different way to the formula for the 2009 earn-out calculation. Firstly the 2010 EBIT of NSR (HK) is multiplied by 2.5 and then both 50% of the debt assumed by Funtastic and the value of the Guaranteed Shares are subtracted. This will determine the value of the consideration to be allocated to the Pizmony Entities. The amount determined is to be converted to shares at $0.20 per share (the deemed value per share in 2010). A template of how this will be calculated is presented in the table below.

Table 13: 2010 earn-out template

Formula		Template earn-out calculation AU$
	2010 EBIT of NSR (HK)	x,xxx,xxx
x	multiple of 2.50 (ie. 5.0 x 50%)	x,xxx,xxx
-	50% of total debt assumed by Funtastic[1]	x,xxx,xxx
-	Value of Guaranteed Converting Shares (10,000,000 @ $0.135)	(1,350,000)
=	Additional consideration allocated to the Pizmony Entities	x,xxx,xxx
/	Deemed future price of 2010 shares in Funtastic	0.20
=		**x,xxx,xxx shares[2]**

Source: Funtastic Management, BDO Kendalls Securities Analysis

[1]The maximum debt level assumed by Funtastic is expected to be AU$7.55 million.

[2] No shares will be issued under the earn-out if FY10 EBIT is less than AU$2.05 million and is therefore not sufficient to cover both the 50% of total debt assumed by Funtastic and the value of the Guaranteed Shares issued.

91. The shareholder loans to be assumed under the Proposed Acquisition totalling AU$1.3 million will be repaid in two tranches:

- AU$0.65 million will be repaid by the later of 1 July 2009 or the business day after completion of the Proposed Rights Issue; and
- AU$0.67 million (inclusive of interest of AU$16,250 calculated at a rate of 5% per annum from 1 July 2009 to 31 December 2009) will be repaid on 1 January 2010.

The remaining balance of the shareholder loans are repayable in full on the later of the end of the earn out period or NSR (HK) achieving cumulative EBIT equal to a minimum earnings threshold. If the aggregate of NSR (HK)'s earnings for the period commencing on 1 January 2009 and ending on 31 December 2013 is less than the minimum earnings threshold, no further repayment of the shareholder loans will be made.

92. The minimum number of shares that will be issued to the Pizmony Entities upon completion of the Proposed Acquisition is 10 million.

93. Further, the maximum number of shares that can be issued to the Pizmony Entities as consideration including both the Guaranteed Converting Shares and shares issued under the above earn-out formula is 50 million. However, if the financial performance of NSR (HK) is such that the vendors would, based on the relevant earn out formula, be entitled to receive consideration equal in value to an amount greater than the value of the maximum number of shares that may be issued, Funtastic will pay that additional amount in cash up to a maximum amount of AU$5 million.

Pro Forma Capital Structure Post Proposed Transactions

94. As discussed in paragraph 34, the Proposed Acquisition is being completed concurrently with the Proposed Rights Issue. The pro forma capital structure of Funtastic on completion of both the Proposed Rights Issue and the Proposed Acquisition is summarised below, assuming:

- none of the currently issued unlisted securities, i.e. PSRs and options are converted into shares;
- the Proposed Rights Issue is completed and:
  - > Pizmony and Mathieson both participate in the Proposed Rights Issue in their capacity as current shareholders;
  - > 100% of investors with greater than 4% holding ("**Significant Investors**") participate in the Proposed Rights Issue; and
  - > 50% of all other shareholders participate in the Proposed Rights Issue. We note that the ownership of Pizmony and Mathieson will increase significantly if fewer shareholders than those assumed above participate in the Proposed Rights Issue;
- the Proposed Transactions are approved;
- shares are issued to the Pizmony Entities as consideration for the Proposed Acquisition; and
- the FY09 and FY10 EBIT is not sufficient to result in additional shares being issued under the earn-out formula, which will result in Pizmony Entities being issued only the 10 million Guaranteed Converting Shares.

Table 14: Pro Forma Capital structure assuming only Guaranteed Converting Shares issued

Funtastic	Pre Proposed Transactions		Post Proposed Transactions	
	Number of Ordinary Shares	% of shareholding	Number of Ordinary Shares	% of shareholding
Existing shares				
Non-associated shareholders	151,452,880	91.51%	151,452,880	44.41%
Pizmony Entities	11,855,742	7.16%	11,855,742	3.48%
Mathieson Entities	2,190,219	1.32%	2,190,219	0.64%
Total existing shares	**165,498,841**	**100.00%**	**165,498,841**	**48.53%**
Proposed Rights Issue				
Non-associated shareholders			108,709,743	31.88%
Pizmony Entities			11,855,742	3.48%
Mathieson Entities			44,933,356	13.18%
Total post-Proposed Rights Issue			**330,997,682**	**97.07%**
Proposed Acquisition				
Guaranteed Converting Shares issued to Pizmony Entities			10,000,000	2.93%
Total guaranteed shares post-Proposed Transactions			**340,997,682**	**100.00%**
Potential shares issued to Pizmony under 2009 earn-out formula			-	-
Potential shares issued to Pizmony under 2010 earn-out formula			-	-
Total guaranteed and potential shares post-Proposed Transactions			**340,997,682**	**100.00%**

Source: BDO Kendalls Securities Analysis

95. If the Proposed Acquisition is approved and the actual 2009 and 2010 EBIT is not sufficient to result in additional shares being issued under the earn-out formula, the number of Funtastic shares issued to Pizmony as consideration for NSR (HK) will be the 10,000,000 Guaranteed Converting Shares. The total shares and relevant interest in Funtastic held by Pizmony Entities and Mathieson Entities will be 33,711,484 (9.9%) and 47,123,575 (13.8%), respectively, representing a total of 23.7%.

96. The pro forma capital structure of Funtastic assuming that NSR (HK) outperforms the target earn-out hurdles and the maximum number of shares is issued to the Pizmony Entities is summarised below, assuming:

- none of the currently issued unlisted securities, i.e. PSRs and options are converted into shares;
- the Proposed Rights Issue is completed and:
  - Pizmony and Mathieson both participate in the Proposed Rights Issue in their capacity as current shareholders;
  - 100% of Significant Investors participate in the Proposed Rights Issue; and
  - 50% of all other shareholders participate in the Proposed Rights Issue. We note that the ownership of Pizmony and Mathieson will increase significantly if fewer shareholders than those assumed above participate in the Proposed Rights Issue;
- the Proposed Transactions are approved;
- shares are issued to Pizmony Entities; and
- the FY09 and FY10 EBIT of NSR (HK) sufficiently outperforms for the purpose of the earn-out formula resulting in 50 million shares, being the maximum allowable, being issued to Pizmony Entities.

Table 15: Pro Forma Capital Structure assuming NSR (HK) outperforms target earn-out hurdles

Funtastic	Pre Proposed Transactions		Post Proposed Transactions	
	Number of Ordinary Shares	% of shareholding	Number of Ordinary Shares	% of shareholding
Existing shares				
Non-associated shareholders	151,452,880	91.51%	151,452,880	39.75%
Pizmony Entities	11,855,742	7.16%	11,855,742	3.11%
Mathieson Entities	2,190,219	1.32%	2,190,219	0.57%
Total existing shares	**165,498,841**	**100.00%**	**165,498,841**	**43.44%**
Proposed Rights Issue				
Non-associated shareholders			108,709,743	28.53%
Pizmony Entities			11,855,742	3.11%
Mathieson Entities			44,933,356	11.79%
Total post-Proposed Rights Issue			**330,997,682**	**86.88%**
Proposed Acquisition				
Guaranteed Converting Shares issued to Pizmony Entities			10,000,000	2.62%
Total guaranteed shares post-Proposed Transactions			**340,997,682**	**89.50%**
Potential shares issued to Pizmony assuming outperformance of 2009 and 2010 earn-out targets			40,000,000	10.50%
Total guaranteed and potential shares post- Proposed Transactions			**380,997,682**	**100.00%**

Source: BDO Kendalls Securities Analysis

97. If the Proposed Acquisition is approved and NSR (HK) sufficiently outperforms for the purpose of the earn-out formula and is issued the maximum number of shares available under the Proposed Acquisition, the number of Funtastic shares issued to Pizmony Entities as consideration for NSR (HK) will be 50,000,000. The total shares and relevant interest in Funtastic held by Pizmony Entities and Mathieson Entities will be 73,711,484 (19.4%) and 47,123,575 (12.4%), respectively, representing a total of 31.7%. Therefore, we conclude that the ownership interest of the Pizmony Entities and Mathieson Entities after the Proposed Transactions are completed will be between 11.2% and 60.2%, with the final outcome dependent on the percentage of existing shareholder participation in the Proposed Rights Issue and the earn-out shares issued as presented in the table below.

Table 16: Matrix of % Shareholding of Pizmony Entities and Mathieson Entities

% Shareholding of Pizmony Entities and Mathieson Entities		Shares issued as consideration[1]		
		10 Million	30 Million	50 Million
Proposed Rights Issue Participation	100% of Significant Investors, 100% of all other Non-Associated Shareholders [2]	11.17%	16.09%	20.50%
	100% of Significant Investors, 50% of all other Non-Associated Shareholders [2]	23.71%	27.93%	31.72%
	50% of Significant Investors, 50% of all other Non-Associated Shareholders [2]	33.38%	37.07%	40.37%
	0% of Significant Investors, 0% of all other Non-Associated Shareholders [2]	55.59%	58.05%	60.25%

Source: BDO Kendalls Securities Analysis
[1] Refer commentary in Section XI.
[2] Assumes Pizmony Entities and Mathieson Entities both participate 100% in the Proposed Rights Issue.

VII PROFILE OF NSR (HK)

Company Overview

98. NSR (HK) is a Hong Kong based company incorporated in 2004. NSR (HK) is engaged in the design and manufacture of licensed and non-licensed toys and various other children's products.

99. NSR (HK) has secured global licence agreements to design and manufacture a variety of toys and children's products for brands including Ben 10, Bakugan, In the Night Garden and various Disney properties such as Wall-E.

100. NSR (HK) has intellectual property in the form of research and development; moulds and tooling for the production of licensed toys; and, design and manufacturing capabilities. We are advised that NSR (HK) is currently expanding its business to include distribution. In the distribution business, NSR (HK) acts as the sole distributor of certain pre-manufactured toys in Australia. NSR (HK) is not involved in the development or production of these toys. NSR (HK) commenced the distribution business following the expiry of Pizmony's non-compete clause with Funtastic in October 2008. Subsequent to that NSR (HK) was able to engage in distribution alliances with overseas companies supplying products into the Australia market.

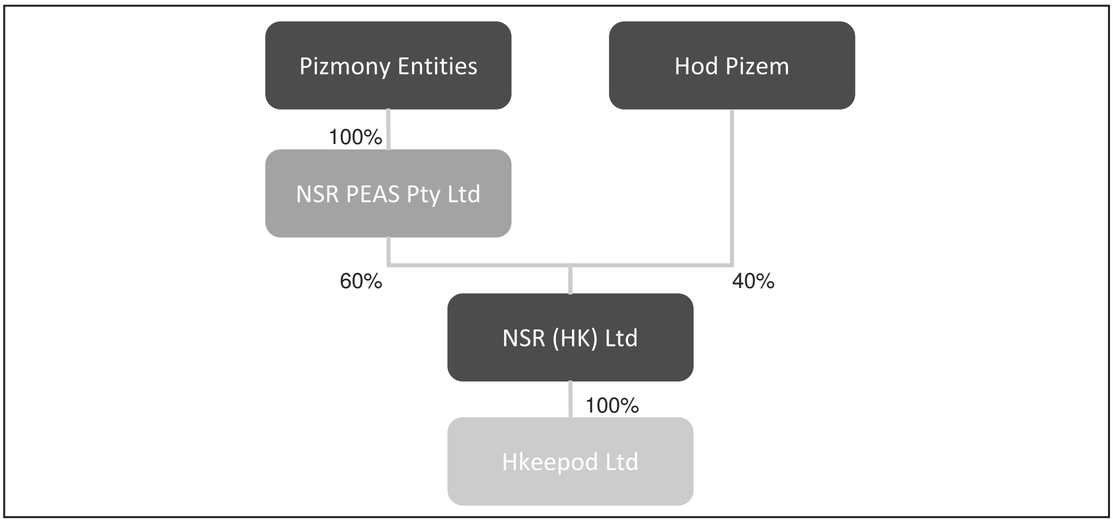
101. In January 2008, NSR (HK) signed a global Master Toy License for "Noddy" with Chorion Rights Limited ("**Chorion**") for a five year term from 30 December 2007 to 30 December 2012. NSR (HK)'s vision for the acquisition of the Noddy Master Toy License is to become a key partner with a dominant preschool brand globally that has the ability to sustain long-term growth. NSR (HK) will work closely with Chorion to ensure the development of a core focused range maximising the strength and preservation of the heritage of Noddy.

102. Following 12 months of design and product development, Noddy sales are expected to commence in FY09. NSR (HK)'s key initiatives for the Noddy brand are segmented into two areas:

- Developed markets: UK, France, Portugal and parts of Continental Europe
- Developing markets: North America, Asia and Australia

103. On 15 January 2009, NSR (HK) acquired all the shares of Hkeepod Limited ("**Hkeepod**") from Hod Pizem, Pizmony's brother, in exchange for a 40% interest in NSR (HK). Hkeepod is a Hong Kong entity established by Hod Pizem. Subsequent to this transaction the current company structure of NSR (HK) is depicted below.

Figure 3: Ownership structure of NSR (HK)



Source: NSR Strategic Plan 2009

Growth Strategy

104. We are advised that NSR (HK)'s long-term strategy involves:

- investing in research and development;
- focussing development on key product categories;
- licensing leading global brands to capitalise on heightened brand recognition;
- increasing marketing support;
- concentrating on seasonal Christmas offerings; and
- forming distribution alliances with suppliers that have representation in the Australian market.

Financial performance

105. We have been provided with NSR (HK)'s audited financial performance for the years ended 31 December 2006 ("**FY06**") and 2007 ("**FY07**"). The FY08 unaudited financial performance represents management accounts for the year ended 31 December 2008. The FY08 pro forma financial performance provided includes:

- the unaudited FY08 financial performance of NSR;
- the actual result of Hkeepod which was acquired on 15 January 2009; and
- adjustments made by NSR (HK)'s accountant, KNP Solutions ("**KNP**"), regarding various expenses and loan balances relating to loans owed by and owing to the Pizmony Entities by NSR (HK).

106. The table below summarises NSR (HK)'s audited financial performance for FY06 and FY07 and the unaudited financial performance for FY08 and pro forma FY08.

Table 17: NSR (HK) Historical Financial Performance

NSR (HK) Statement of Financial Performance	Audited 31-Dec-06 US$'000s	Audited 31-Dec-07 US$'000s	Unaudited 31-Dec-08 US$'000s	Pro forma 31-Dec-08 US$'000s
Revenue from the sale of goods				
Gross revenue	3,072	2,208	5,381	6,692
Cost of sale of goods	(2,272)	(1,675)	(3,219)	(4,059)
Gross Profit	**799**	**533**	**2,161**	**2,633**
Other Income				
Interest revenue	6	-		-
Commissions income	-	28	-	-
Other income	-	106	249	249
Other operating income	-	31	-	-
Total Revenue	**805**	**698**	**2,410**	**2,881**
Expenses				
Distribution costs	(426)	(316)	(483)	(483)
Amortisation	-	-	(202)	(202)
Depreciation	(2)	(117)	(36)	(36)
Administrative expenses	(1,207)	(1,044)	(1,365)	(1,554)
Finance costs	(54)	(21)	(41)	(82)
Total Expenses	**(1,688)**	**(1,499)**	**(2,127)**	**(2,357)**
Other Items				
Cash advances from Pizmony Entities not accounted for in NSR HK	-	-	-	(7)
Total Other Items	**-**	**-**	**-**	**(7)**
Profit Before Income Tax	**(883)**	**(800)**	**282**	**517**
Income Tax Expense	-	-	-	-
Net Profit/(Loss)	**(883)**	**(800)**	**282**	**517**

Source: NSR (HK)'s Annual Report 2007, NSR (HK)'s Management Accounts 2008

107. In relation to NSR (HK)'s historical performance, the following comments are made.

- NSR (HK) experienced losses of US$0.9 million and US$0.8 million in FY06 and FY07. In FY08, NSR (HK) was able to both increase revenue and generate a profit during a period where other toy manufacturers and distributors have had difficulty maintaining revenue and margin due to the following reasons:
  - ability to provide competitive pricing;
  - R&D investment which led to quality product offerings;
  - marketing efforts in prior years; and
  - a change in strategy to capitalise on popular licensed brands during FY08 (previously NSR (HK) sold only toys known as 'private labels' that have lower levels of marketing and brand awareness).
- Pro forma FY08 financial performance includes the full year result of Hkeepod. The due diligence report provided by a third party in relation to the Proposed Acquisition shows that Hkeedpod's FY08 EBIT was approximately US$490,000 representing a significant portion of NSR (HK)'s pro forma profit in FY08. However as previously stated the pro forma FY08 performance includes adjustments made by KNP regarding various expenses and interest on loans owed by and owing to the Pizmony Entities by NSR (HK) of approximately US$256,000. The pro forma FY08 net profit after tax after these adjustments is approximately US$517,000.
- We are advised that as at 2008 NSR (HK) had accumulated Hong Kong carry-forward tax losses of approximately US$2,113,000, accordingly no income tax expense was incurred on 2008 profits.

Projected Financial Performance

108. We have been provided with NSR (HK)'s FY09 budget. We are advised that the following matters have been considered in the FY09 budget:

- adjustment to reflect market rate salaries for Pizmony and Hod Pizem that were not included in the financial statements of NSR (HK) previously; and
- any additional adjustments for expenses (particularly salaries) that have not been included in the NSR (HK) financial statements but will be required in the business going forward such as marketing executives.

Both of these adjustments are reflected in NSR (HK) Administrative expenses

109. The following table summarises NSR (HK)'s FY09 budget.

Table 18: NSR (HK) Consolidated Projected Financial Performance

NSR (HK) Statement of Financial Performance	Forecast FY09 US$'000s
Revenue from the sale of goods	
Gross revenue	16,115
Cost of sale of goods	(10,574)
Gross Profit	**5,541**
Other Income	
Other income	50
Total Revenue	**5,591**
Expenses	
Distribution costs	(1,163)
Amortisation	(172)
Depreciation	(300)
Administrative expenses	(2,274)
Finance costs	(100)
Total Expenses	**(4,009)**
Profit Before Income Tax	**1,582**
Income Tax Expense[1]	-
Net Profit/(Loss)	**1,582**

Source: NSR (HK)'s FY09 Budget
[1] No income tax expense is forecast as Management have advised that they expect carry-forward tax losses to be utilised.

110. The key assumptions underlying the FY09 budget are detailed below:

- Sales increase of approximately US$9.4 million or 140%, due to:
  - > sales in the new Noddy business of US$4.5 million as the Noddy master license agreement was signed in January of 2008 and NSR (HK) has spent the subsequent 12 months to 31 December 2008 designing the range of toys to be sold with sales forecast to commence in FY09;
  - > sales in the new distribution business of US$4.3 million; and
  - > an increase of US$0.6 million (8.8%) in NSR (HK)'s existing standard business.
- NSR (HK) has agreed to a minimum guarantee of royalties to Noddy's licensor, Chorion, of US$5 million cumulative to 31 December 2012. Management have advised that the risk of not accomplishing sales to cover this minimum guarantee has been largely offset by sub-license minimum guarantees on similar terms negotiated with distributors in the UK, France, Portugal and Spain. Under the sub-license agreements all royalties paid by the sub-licensee are received by Chorion. However, NSR (HK) continues to be responsible for meeting the minimum guarantee of royalty payments to Chorion should sub-licensee sales not meet this minimum guarantee level.
- The contribution from the Noddy business is the margin on the sale of Noddy products to the sub-licensee. Approximately 71% of this Noddy revenue is expected to come from

figures and vehicles with a further 16% relating to plush toy sales. The key geographical markets are expected to be France and the UK where the Noddy brand has an established reputation.

- The distribution business is forecast to contribute US$4.3 million in revenue from sales to major local retailers exclusively within Australia.
- Whilst significant revenue growth is forecast for NSR (HK), the due diligence report stated that as at the date of due diligence being completed, i.e. 30 March 2009, approximately 86% of this revenue remains unsecured and 55% is being derived from the new Noddy and distribution businesses. However, we note the Noddy brand is well-established and has been in existence for 60 years. Further, we are advised that the previous licensee to the Noddy master license agreement achieved global sales in excess of US$5.0 million.
- The depreciation and amortisation expenses are assumed to significantly increase as a result of the commencement of R&D depreciation which relates primarily to the amounts spent for product development of the Noddy products.

Financial position

111. The table below summarises NSR (HK)'s balance sheet as at 31 December 2007 and 2008.

Table 19: NSR (HK)'s Balance Sheet

	Audited 31-Dec-07 US$'000	Pro forma 31-Dec-08 US$'000
Current assets		
Cash	24	-
Trade and other receivables	218	387
Research & development - capitalised	-	396
Deposits paid	-	294
Prepayments & Other Receivables	-	103
Total current assets	**241**	**1,180**
Non-current assets		
Property, plant and equipment	165	572
Total non-current assets	**165**	**572**
Total assets	**406**	**1,752**
Current liabilities		
Trade and other payables	1,367	692
Borrowings	534	618
Provisions	5	-
Loan from a director	-	416
Loan from a shareholder	-	1,801
Total current liabilities	**1,905**	**3,527**
Non-current liabilities		
Loan from a holding company	502	-
Loan from a shareholder	191	506
Total non-current liabilities	**693**	**506**
Total liabilities	**2,598**	**4,033**
Net assets	**(2,192)**	**(2,281)**

Source: Management, BDO Kendalls Securities Analysis

112. In relation to NSR (HK)'s historical position, the following comments are made.

- Whilst there is no provision for doubtful debts applied against the trade debtors balance, we note that the due diligence provided by a third party indicated that as at 31 December 2008 approximately 78% of trade debtors are aged less than 30 days which indicates a relatively healthy level of account receivables.
- Deposits paid of $290,000 as at 31 December 2008 relate primarily to vendor deposits to manufacturers for purchase orders.
- Capitalised research and development costs related primarily to design fees, prototype and testing charges and other product development expenses.
- Prepayments as at 31 December 2008 primarily related to prepaid licenses fees and product liability insurance.

- The increase in property, plant and equipment during FY08 was as a result of the purchase of tooling equipment to be used in the manufacturing process and leasehold improvements.
- We note that the due diligence report stated that NSR (HK) is not expected to generate positive cash flow until September 2009. This is due to the level of working capital assumed and the seasonality of NSR (HK)'s sales. Under the Proposed Acquisition, the level of debt to be assumed by Funtastic has taken into account the level of additional working capital required in order to support NSR (HK)'s business operations until it is trading in a cash positive manner.
- The significant increase in trade and other payables during FY08 is due to a commensurate increase in revenue.
- NSR (HK) has carry-forward tax losses of US$2.1 million as at 31 December 2008 that are not presented on the Balance Sheet above.

IX VALUATION METHODOLOGIES

113. The value of shares in a company or the value of a business is usually determined with regard to both asset values and the consistency and quality of earnings. There are five traditional methodologies for such a valuation. These are referred to as:

- capitalisation of maintainable earnings;
- discounted cash flow analysis;
- asset-based valuations;
- comparable market transactions; and
- quoted market price valuations.

114. We have considered the relevance of each of these methodologies prior to undertaking our valuation.

Earnings-based Valuation

115. This requires consideration of the following factors:

- estimation of future maintainable earnings having regard to historic and forecast operating results, including sensitivity to key industry risk factors, future growth prospects, and the general economic outlook;
- determination of an appropriate capitalisation rate which will reflect a purchaser's required rate of return, risks inherent in the business, future growth expectations and alternative investment opportunities; and
- a separate assessment of surplus or unrelated assets and liabilities, being those items that are not essential to producing the estimated future earnings.

116. This methodology is a surrogate for a discounted cash flow valuation. It is typically employed where a company has mature operations with a history of profits and an expectation that these will be maintained at similar levels in the future.

Discounted Cash Flow Based Valuation

117. This methodology determines the present value of the net cash flows that are expected to be derived from future activities. These future cash flows are discounted to current values by recognising both the risk of their receipt and the time value of money using a suitable discount rate. We consider this methodology to be the most appropriate method in the calculation of the value where there is adequate information about likely future cash flows, usually over a finite term.

Asset-based Valuation

118. In the absence of reliable forecasts for future cash flows or earnings, the net asset value of a company can be a reliable indicator of the minimum value for the company.

119. There are three primary asset based methodologies:

Orderly Realisation of Assets Basis

This involves the determination of the net realisable value of the assets of the business or company assuming an orderly realisation of those assets. This value includes a reduction in value to allow for the reasonable costs of carrying out the sale of assets and for the time value of money.

This approach is appropriate where the business or company concerned is not generating adequate returns and in certain circumstances where there are surplus non-operating assets.

Forced Sale Basis

This involves assets being sold at values materially different from their fair market value. This approach is appropriate when there is an event such as a liquidity crisis or formal administration or liquidation appointment requiring the assets to be realised in a short timeframe.

Going Concern Basis

This is appropriate for valuing an investment company, where the majority of its value lies in investments in other assets or entities, such as a private equity company or listed investment vehicle.

Comparable Market Transactions

120. This methodology requires research to ascertain details of any comparable transactions in the same industry for a similar company to that being valued. If such transactions exist and the company being valued is directly comparable to that being acquired then the assets, revenue or earnings multiples, or other measures employed in the actual transaction, can be utilised in the valuation. The difficulty with this methodology is the sourcing of sufficient information involving the sale process to accurately analyse the consideration paid and to establish the comparability of the two companies.

Quoted Market Price Valuation

121. An alternative valuation approach that can be used in conjunction with (or as a replacement for) any of the above methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX through which shares can be traded, recent prices at which shares are bought and sold can be taken as the market value per share. With the advent of continuous disclosure, such market value should include all factors and influences that impact upon the ASX price. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a "deep" market in that security. Shares in a company normally trade at a discount to the underlying value of the company as a whole, reflecting the fact that portfolio shareholdings do not give shareholders management control or direct access to cash flows. In the absence of a deep, well informed market exhibiting good liquidity, this method has significant limitations.

122. We have considered the above methodologies in the evaluation that forms the subject of this report, and the application of these methodologies is dealt with in the relevant sections of this report below.

X VALUATION OF FUNTASTIC

Valuation Approach Adopted

123. We have considered the valuation methodologies discussed earlier in this report and have assessed the market value of Funtastic under the following methodologies:

- **Capitalisation of maintainable earnings methodology:** The capitalisation of earnings methodology is generally used as a primary valuation approach for businesses that are stable and operating in a relatively mature or developed industry. Based on our assessment of the Company's historical performance for the last two years and the outlook for FY09 (refer to Section V), Funtastic's financial performance adjusted for non-recurring and discontinued operations is relatively stable and therefore the capitalisation of maintainable earnings methodology is appropriate to be considered as the primary method in valuing the Company; and

- **Quoted market share price:** We have also considered the historical weighted average price of Funtastic shares and the volatility of the share price prior to and post the announcement of the Proposed Transactions. Further, we also considered precedent transactions involving Funtastic's shares.

Capitalisation of Future Maintainable Earnings Methodology

124. We consider that the most appropriate methodology to value Funtastic is the capitalisation of future maintainable earnings method due to the following factors:
   - the primary driver of value for Funtastic is its ability to generate future earnings;
   - there is an adequate number of publicly listed companies sufficiently similar to Funtastic to provide meaningful analysis;
   - Funtastic does not have a finite lifespan nor is it required to undertake significant capital expenditure in the near future;
   - in the absence of long term cash flow forecasts, we do not consider it appropriate to apply a discounted cash flow methodology; and
   - asset based methods are not appropriate as there is no intention to liquidate the company and it is not an asset based business.

125. In determining the appropriate multiples to apply to our assessment of future maintainable earnings, we have considered the historical trading and transaction multiples observed in the market for the toy wholesaling industry.

126. In our approach we have applied the following steps:
   - determine Funtastic's estimated future maintainable earnings;
   - determine the value of Funtastic by applying an appropriate multiple to our estimated future maintainable earnings;
   - determine the value for surplus or unrelated assets and liabilities, if applicable; and
   - aggregating the estimated value of the operating business together with the value of net surplus assets or liabilities, if any, to determine the value of Funtastic.

127. In assessing an indicative value of Funtastic we have assumed the ongoing business operations of Funtastic will remain unchanged.

Future Maintainable Earnings

128. Future Maintainable Earnings ("**FME**") reflects a level of earnings expected to be achieved by the business in the future on an ongoing basis. Funtastic management have provided us with the historical financial performance for the three years ended 31 December 2008. We also have discussed the outlook for Funtastic in FY09.

129. Funtastic is expected to achieve total sales of approximately AU$320 million in FY09. Sales are estimated to reduce due to the collapse of ABC Learning Centres. Funtastic has budgeted no sales for the business related to ABC Learning Centres however we are advised that sales are continuing to ABC Learning Centres whilst they are under administration preceding their sale or closure. Further, Funtastic also downsized its apparel business which resulted in a decline in sales. After a significant downturn in FY09 following the restructuring in FY08, Funtastic expects to focus on its existing business and to search for opportunities to enhance its business portfolio in order to improve its performance.

130. We are advised that the Company has adopted a conservative outlook due to the largely unknown effect of the global financial crisis and the potential impact on consumers' discretionary spending. In our assessment we have reviewed management projections and conducted the appropriate checks, enquiries and analysis and consider the forecast sales level of AU$320 million to be achievable.

131. In assessing the FME of Funtastic we have made several adjustments to the FY07 and FY08 historical reported EBITDA to remove the effect of non-recurring items, including:

- significant items of $83.4 million relating to write-offs and provisions associated with ABC Learning Centres, impairment of goodwill relating to the softgoods and New Zealand toy businesses, impairment of material contracts and expenses associated with the Archer Consortium bid (refer paragraph 75 for a detailed discussion);
- amounts associated with the discontinued operations of the publishing business; and
- the retrospective effect of the discontinued operations of the publishing business in 2007.

132. The table below summarises our assessment in determining FY07 and FY08 adjusted EBITDA.

Table 20: Funtastic FME

	Actual 31 December 2007 $'000	Actual 31 December 2008 $'000
Total Revenue	**368,756**	**357,658**
Net Profit Before Tax	**7,687**	**(63,756)**
Add back:		
Finance costs	9,180	8,364
Amortisation	5,204	2,457
Depreciation	2,541	3,015
Less:		
Interest from bank deposits	(231)	(416)
EBITDA	**24,381**	**(50,336)**
Adjustments:		
Significant items	-	83,368
Discontinued operations expenses	19,352	3,546
Discontinued operations revenue	(18,501)	(1,716)
Gain on disposal of discontinued operations	-	(4,212)
Adjusted EBITDA	**25,232**	**30,650**
Adjusted EBITDA Margin	**6.84%**	**8.57%**

Source: Management, BDO Kendalls Securities Analysis

133. In our assessment of Funtastic's FME we note the following:

- Funtastic's average gross profit margin for the three years ended 31 December 2008, is approximately 32.2% and based on our discussions with management the gross profit margin forecast for the year ended 31 December 2009 is expected to be relatively stable at that level;
- there are a number of non-recurring transactions that we have adjusted for in our assessment. The details of these non-recurring transactions are detailed in paragraph 75; and
- after excluding these non-recurring income and expense items and discontinued operations, Funtastic's adjusted EBITDA margin is in the range of 6.8% to 8.6%. We note that the FY08 EBITDA margin is higher compared to other years. We are advised that this is mainly due to the recovery of the toy division's profitability and the implementation of new inventory planning processes which contributed to operating costs savings. We note that the EBITDA margin is expected to decline in the short-term due to pricing pressure from competitors and the impact of the global economic crisis. We consider in the medium term that an EBITDA margin of approximately 6.5% to be reasonable.

134. Taking into account the above points and Funtastic's historical and estimated performance in FY09, we consider the revenue and EBITDA margin of $320 million and 6.5%, respectively, to be a reasonable reflection of Funtastic's maintainable performance. On this basis we consider a FME of approximately $20 million to be reasonable in assessing the value of Funtastic.

Capitalisation Rate

135. In determining an appropriate multiple to apply to our assessment of FME we have considered, amongst other things, trading multiples observed in the market for comparable companies and recent transactions that have occurred in the toy wholesaling industry. We have not been able to identify what we would consider to be appropriate comparable companies for Funtastic in Australia. Accordingly, we have expanded our search to include companies in the USA toy industry.

136. We noted there were some transactions involving small scale companies in the toy industries in Australia and overseas. However, most of the companies involved are privately owned and detailed information regarding the transactions was not accessible. As a result, in determining the appropriate EBITDA multiple to apply in our valuation of Funtastic we have focused on the trading multiples observed in the market.

137. The table below sets out the trading multiples observed in the market for comparable companies in the toy wholesaling industry.

Table 21: Funtastic Comparable Companies

Company	Currency	Enterprise Value $M	Historic EBITDA $M	Forecast EBITDA $M	Historic EBITDA Multiple	Forecast EBITDA Multiple
Funtastic	**AUD**	**95.2**	**30.7**[1]	**20.0**	**3.1**	**4.8**
Mattel Inc	USD	5,068.2	587.1	793.4	8.6	6.4
Hasbro Inc	USD	3,820.1	572.6	682.6	6.7	5.6
Pacific Brands Ltd	AUD	1,021.8	240.4	159.8	4.3	6.4
Low					**4.3**	**5.6**
Average					**6.5**	**6.1**
Median					**6.7**	**6.4**
High					**8.6**	**6.4**

Source: Bloomberg as at 31 March 2009, BDO Kendalls Securities Analysis
[1] Adjusted EBITDA as shown in table

138. In assessing the trading multiples of the comparable companies we note that the trading multiples represent prices paid for a listed minority interest.

139. In determining an appropriate multiple to apply to Funtastic's FME, we have also had regard to the following:

- the nature and size of Funtastic's business, particularly its position as a market leader in the toy industry in Australia;
- Funtastic's business portfolio which includes a maturing stable of toy brands;
- the stability and quality of Funtastic's earnings; excluding the one-off expenses and costs in relation to its business restructuring, Funtastic has exhibited a relatively stable trading performance;
- Funtastic's business focuses on toy distribution, whereas the comparable companies' businesses also include design and manufacturing. As a result, the comparable companies' profit margins are higher than Funtastic's (refer to Appendix C Funtastic Comparable Companies);
- the comparable companies are significantly larger than Funtastic;
- the growth prospects of Funtastic. We are advised that as a distributor of toys, Funtastic's growth prospects are limited and are highly reliant on its current business portfolio; and
- risks inherent in the business.

Control Premium

140. We note that under the Proposed Acquisition Funtastic will issue 10,000,000 Funtastic Converting Shares to the Pizmony Entities plus a further entitlement under the earn-out formula. As mentioned in Section VI, should the Proposed Transactions proceed, the Pizmony Entities and Mathieson Entities will collectively hold between 11.2% and 60.3% (with a likely result some 28%) of the shares in Funtastic and will become one of the major shareholders. Further, we note that as part of the Proposed Transactions, Pizmony and Mathieson will be appointed to the Board of Directors of Funtastic. On this basis, under the Proposed Acquisition we have assessed the business value of the whole business of Funtastic, accordingly it is appropriate to include a premium for control.

141. Controlling interests in companies generally confer greater benefits than non-controlling interests. Such benefits include the ability to:

- elect directors and appoint management;
- influence managerial control, including day to day running of the business;
- determine management compensation;
- set company policies and business strategy;
- award business contracts;
- make acquisitions;
- influence decisions about the corporate structure;
- register the company's shares for a public offering; and
- impact dividend policy.

Accordingly, controlling interests are generally considered to be more valuable than non-controlling interests.

142. It is observed that takeovers involving the acquisition of a majority interest generally take place at significant premiums to portfolio or minority interests. This premium is generally in the range of 20% to 45% and represents two elements:

- a pure control premium; and

- the expected synergy benefits which the acquirer is prepared to pay the target shareholders.

143. Observed premiums in takeovers therefore include both elements however it is not possible to separate these two elements in any meaningful way. A number of studies have been conducted in this area, and they are subject to the facts surrounding the company being valued and the unique features of the transaction including:

- the synergies to be achieved; and
- the costs of integrating the businesses.

144. The average and median of projected EBITDA multiples observed for comparable companies in the toy industry are 6.1 and 6.4 times respectively. We note that trading multiples reflect the multiple that investors are willing to pay for a minority interest and does not include a premium for control or potential synergy benefits that may exist for a potential acquirer. In determining the value of Funtastic, we have considered market trading multiples as a benchmark.

145. Based on the above factors we have determined an EBITDA multiple of 4.8 to 5.2 times to be appropriate in our valuation of Funtastic on a controlling interest basis.

Interest Bearing Debt and Surplus Assets

146. A valuation undertaken by capitalising EBITDA gives the aggregate fair market value of the company on an ungeared basis, commonly referred to as the enterprise value. In order to determine the value of the equity, net interest bearing debt must be deducted from the enterprise value. We note that as at 31 December 2008 Funtastic had borrowings of approximately $72.8 million, with the current and non-current borrowings of approximately $23.4 million and $49.4 million respectively. Those borrowings comprise trade and bill finance.

147. We are advised that Funtastic does not hold any non-operating assets. We note that as at 31 December 2008 Funtastic had a cash balance of approximately $5.8 million. However, considering the level of cash that Funtastic requires to maintain its operations, we do not consider the cash balance of $5.8 million to be a surplus asset.

FME Valuation Summary

148. Based on our analysis, we estimate the market value of Funtastic to be in the range of $23.2 million to $31.2 million, as shown in the table below.

Table 22: Summary Valuation

	Low AU$'000s	High AU$'000s
Future Maintainable Earnings	20,000	20,000
EBITDA Multiple	4.80x	5.20x
Enterprise value	**96,000**	**104,000**
Less: Interest Bearing Debt	(72,833)	(72,833)
Equity Value	**23,167**	**31,167**
No. of shares issued	**165,499**	**165,499**
Equity Value per share ($)	**0.14**	**0.19**

Source: BDO Kendalls Securities analysis

Quoted Market Share Price

149. In the 12 month period to December 2008 Funtastic's share price has been volatile. We refer you to the VWAP table in Section VI above. We note that there have been a number of announcements by Funtastic in relation to its operations, a non binding proposed takeover bid from the Archer Consortium and also the impact of the appointments of Receivers and Voluntary Administrators to ABC Learning Centres. These announcements directly impacted Funtastic's share price. Further, we consider that the share price may not reflect Funtastic's financial fundamentals and be more closely related to the uncertainty exhibited in global market trading conditions.

150. Following the share market downturn, Funtastic's share price has depreciated significantly from a VWAP of $0.67 per share in May 2008 to $0.14 per share in March 2009. More recently, post announcement of the Proposed Transactions, the shares have traded in the price range of $0.11 to $0.18 per share.

151. Further, we note that there was a substantial investment by Mr Lachlan Murdoch in Funtastic in December 2008 at $0.14 per share to acquire a 13.59% interest. We are advised by Management that Murdoch's acquisition of Funtastic shares is not considered as a control acquisition and there is no Murdoch representative on the Funtastic board or within Management. We consider the share price paid by Murdoch to fairly reflect the value of Funtastic shares on a minority interest basis at that time.

152. We note that Funtastic's 1 month and 2 months VWAP price pre-announcement was AU$0.16 per share which is lower than the mid-point of our assessed value above. As previously mentioned, our assessed value is on a controlling basis and therefore reflects a premium for control. We note that the high-end assessed value of $0.19 implies a premium of approximately 19%. On this basis, we consider that the value per share assessed under the capitalisation of maintainable earnings methodology appears to be reasonable.

Marketability and Minority Discount

153. We note that in the Proposed Acquisition the Converting Shares are unlisted and will be held in escrow for 24 months from the Completion Date. Further, any shares issued (including those issued under the earn-out formula) will be held in escrow as detailed in Section II. As noted in paragraph 141, controlling interests generally confer greater benefits than non-controlling interests. Under the Proposed Acquisition, Pizmony and associates will not have the ability to influence all corporate, operational and financial strategy and policy. On this basis, we consider it is appropriate to include a discount of between 10% and 15% to reflect this lack of marketability and control for the shares to be issued under the Proposed Acquisition to Pizmony.

Valuation Summary of Funtastic's Shares under the Proposed Acquisition

154. Applying a marketability and minority discount range of 10% to 15% we have determined the value of Funtastic under the Proposed Acquisition to be in the range of **$0.13 to $0.16**.

Table 23: Summary of Funtastic's Value under the Proposed Acquisition

	Low AU$	High AU$
Equity Value per share	**0.14**	**0.19**
Less: Marketability and Minority Discount – 10% to 15%	0.01	0.03
Equity Value per share under the Proposed Acquisition	**0.13**	**0.16**

Source: BDO Kendalls Securities analysis

XI VALUATION OF NSR (HK)

155. In determining the appropriate methodologies to value NSR (HK) we have considered the valuation methodologies discussed in Section IX of this report.

156. The capitalisation of earnings methodology is generally used as a primary valuation approach for businesses that are stable and operating in a relatively mature or developed industry. We note that NSR (HK) was incorporated in 2004 however, the business has undergone significant restructuring, particularly in relation to the acquisition of Hkeepod in January 2009 and the acquisition of the Noddy master toy license agreement in January 2008. Accordingly whilst NSR (HK)'s historical financial performance does not reflect its future business operation, we consider the capitalisation of earnings methodology to be an appropriate methodology in valuing NSR (HK) due to the following:

- long-term forecasts to enable a discounted cash flow valuation are not available for NSR (HK);
- the value of NSR (HK) is fundamentally driven by earnings and growth rather than net asset backing. On this basis we do not consider the use of a net asset or cost-based methodology to be appropriate;
- the Noddy master toy license agreement entered into in January 2008 has a five year term, which commenced on 30 December 2007 and will end on 30 December 2012. Noddy is expected to be a main contributor to NSR (HK) income. The five year term of the master toy license agreement and other new licenses acquired provide a level of certainty on NSR (HK)'s income in the medium term; and
- we note that due diligence undertaken by a third party indicated that the major contributors to NSR (HK)'s revenue, Noddy and the distribution business, have no proven track record. However, via its recent acquisition of Hkeepod, NSR (HK) is supported by a team consisting of Pizmony and Hod Pizem, who have significant knowledge and experience in the toy industry. We are advised their contribution and experience is expected to support NSR (HK) in achieving its current budget and maintaining and improving its future performance.

157. Under the Proposed Acquisition Funtastic will acquire 100% of NSR (HK) shares, accordingly our valuation of NSR (HK) has been performed on a controlling basis.

Capitalisation of Future Maintainable Earnings Methodology

158. Application of the capitalisation of earnings methodology requires the determination of two key factors, which are the maintainable level of earnings of the business, and an appropriate capitalisation multiple.

159. In our approach we have applied the following steps:

- determine NSR (HK)'s estimated future maintainable earnings;
- determine the value of NSR (HK) by applying an appropriate multiple to our estimated future maintainable earnings;
- determine the value of surplus or unrelated assets and liabilities, if applicable; and
- aggregate the estimated value of the operating business together with the value of net surplus assets or liabilities, if any, to determine the equity value of NSR (HK).

160. In assessing the value of NSR (HK) we have assumed the ongoing business operations of NSR (HK) will continue in line with forecasts provided.

Future Maintainable Earnings

161. FME reflects an average level of earnings expected to be achieved by the business in the future on an ongoing basis. We have been provided with NSR (HK)'s historical financial information for the two years ended 31 December 2008 and the forecast for the year ending 31 December 2009. As previously stated, NSR (HK) has undergone a significant business restructure which involved the acquisition of Hkeepod in January 2009 and the acquisition of the Noddy master toy license agreement in January 2008. Accordingly, NSR (HK)'s historical financial performance does not reflect its future business operation.

162. Further, we note the FY08 pro forma financial performance provided to us incorporates the full FY08 actual result of Hkeepod and adjustments in relation to the NSR (HK) internal restructuring; however it does not include any contribution from sales of Noddy products. We are advised by Management that after approximately one year of preparation for sales, Noddy is expected to start to generate revenue in mid-2009.

163. Based on these facts we do not consider the FY07 financial performance and FY08 pro forma financial performance to reflect NSR (HK)'s current and future performance. Accordingly, in assessing the appropriate level of maintainable earnings in valuing NSR (HK) we consider it is more appropriate to rely on NSR (HK)'s FY09 forecast results. Funtastic has appointed a third party to perform financial due diligence procedures in respect of NSR (HK)'s FY08 pro forma financial performance and FY09 forecast performance.

164. The table below summarises NSR (HK)'s forecast financial performance that we considered in determining NSR (HK)'s future maintainable earnings..

Table 24: NSR (HK) Forecast Financial Performance

	31 December 2009 US$'000
Forecast Revenue	**16,115**
Forecast Net Profit Before Tax	**1,582**
Add back:	
Finance costs	100
Amortisation	172
Depreciation	300
EBITDA	**2,154**
Adjustments:	
Timing difference in commencing amortisation (moulding and tooling)	(32)
Adjusted EBITDA	**2,122**
Deduct:	
Amortisation	(172)
Depreciation	(300)
Adjusted EBIT	**1,650**
Maintainable EBITDA and EBIT in AU$'000 (1 USD = 0.65 AU$)	
Adjusted EBITDA	**3,265**
Adjusted EBIT	**2,538**

Source: NSR FY09 Budget, BDO Kendalls Securities analysis

165. Based on our discussions with Management, we have been advised of the following points in relation to NSR (HK)'s expected sales for FY09:

- After 12 months of design and product development of Noddy products, subsequent to the signing of the global Master Toy License for "Noddy", Noddy sales are expected to commence in mid-2009. Prior to commencing manufacturing, the design of the Noddy products are required to be approved by Chorion. We are advised that the design of the Noddy products has recently been approved.

- The forecast FY09 EBIT is based on the assumption that NSR (HK) manages to generate sales of approximately US$16.1 million, which includes the following:
  - > Sales – Standard : US$7.3 million
  - > Sales – Noddy : US$4.5 million
  - > Sales – Distribution : US$4.3 million
- The Standard business involves the design and development of toys by NSR (HK) based on global third-party licenses with the manufacturing outsourced. We note that in FY08 all of NSR (HK) sales, being US$6.7 million, were generated by Standard sales.
- The Noddy business involves the sale of Noddy products to sub-licensees. We note that the forecast sales for Noddy are based on existing sub-license agreements and do not factor in additional sub-licenses which may be subsequently negotiated. We note the forecast sales of US$4.5 million are less than the sales achieved by the previous licensee (refer paragraph 110) and on that basis the forecast sales for Noddy appear reasonable.
- The Distribution business is where NSR (HK) acts as the sole distributor of certain pre-manufactured toys in Australia. NSR (HK) is not involved in the development or production of these toys. This business commenced following the lapsing of Nir Pizmony's non-compete clause with Funtastic in October 2008 and as such has no proven earnings.

166. Given the expected growth in earnings for NSR (HK) it is reasonable to assess future maintainable earnings with reference to NSR (HK)'s forecast EBITDA for FY09 of AU$3.265 million. However, there exists a high level of uncertainty as to the timing and achievement of forecast sales. The value of NSR (HK) is largely dependent upon its future performance. Similarly, the value received by the shareholders of NSR (HK) is largely dependent on the future performance of the business under the earn-out formula.

167. While we have assessed NSR (HK)'s FME with reference to forecast EBITDA for FY09, we have completed a sensitivity analysis that assesses the assumed capitalisation rate assuming a 70% achievement of earnings, which is AU$2.285 million and an 85% achievement of earnings, which is AU$2.775 million.

Capitalisation Rate

168. In determining the appropriate multiples to apply to our assessment of future maintainable earnings, we have considered the historical trading and transaction multiples observed in the Hong Kong market for the toy manufacturing and wholesaling industry.

169. We note that there were a limited number of transactions in the Hong Kong market for the toy design and manufacturing industry and the majority of these transactions were private companies for which there is limited publicly available information. As a result, in determining the capitalisation rate of NSR (HK) we have considered the trading multiples observed in the market for companies in the toy industry.

170. There are no listed companies in Hong Kong that are considered to be directly comparable to NSR (HK) given:

- listed companies are generally substantially larger than NSR (HK); and
- many of the listed companies' businesses are more diversified than NSR (HK)'s business.

171. The table below sets out the trading multiples observed in the Hong Kong market for the toy industry.

Table 25: Hong Kong Toy Companies

Company	Enterprise Value HK$M	Historic Revenue HK$M	Historic Revenue Multiple	Historic EBITDA HK$M	Historic EBITDA Multiple
Matrix Holdings Limited	418.6	1,273.6	0.33	128.5	3.3
Kader Holdings Co Ltd	343.6	721.7	0.48	110.6	3.1
Smart Union Group (Holdings)	193.1	953.6	0.20	43.5	4.4
Rainbow Brothers Holdings Ltd	155.6	371.6	0.42	33.7	4.6
Lung Cheong Intl Hldgs Ltd	531.2	799.1	0.66	40.7	13.0
RBI Holdings Limited	227.6	525.9	0.43	41.4	5.5
Low			**0.20**		**3.1**
Average			**0.42**		**5.65**
Median			**0.42**		**4.5**
High			**0.66**		**13.0**

Source: Bloomberg, BDO Kendalls Securities Analysis

172. The multiple applied in a capitalisation of earnings methodology should reflect the return expected by an investor in the business. Therefore the multiple selected to value NSR (HK) should reflect the following factors:

- the operational risks of NSR (HK): the ability to provide good quality products with competitive pricing is one of the key drivers in the toy industry. Further, strong marketing also plays an important role in this business. NSR (HK) is supported by Pizmony and Hod Pizem who we are advised have vast knowledge and experience in this industry. Pizmony previously sold the highly profitable JNH Toys business to Funtastic;
- the revenue growth profile of NSR (HK): NSR (HK) holds global license agreements to manufacture toys for reputable brands, such as Noddy, Ben 10 and Bakugan, which will support its revenue growth;
- stability and quality of earnings of NSR (HK): NSR (HK) has had its first profit-making year in 2008 and this has largely been generated by the inclusion of the profits of Hkeepod. The majority of NSR (HK)'s forecast growth is for products and services that have not been proven and as such there is a risk that their actual performance will be less than forecast;
- certainty of licenses: the licenses for the manufacture and distribution of toys are finite in length and there is no certainty that NSR (HK)'s current licenses will be renewed upon expiry. The Noddy master distribution agreement has 4 years remaining and if this is not renewed it will have an adverse affect on NSR (HK)'s forecast revenue;
- the nature of the environment in which the NSR (HK) business operates: the toy industry is a fast moving industry which requires a strong design and R&D team to understand the market trend. NSR (HK) is supported by an experienced team of management which has a long track record in this industry;
- the outlook for the industry in which NSR (HK) operates: as noted in paragraph 61 the toy industry in Australia is in the declining stage of its lifecycle due to increased product saturation, an increase in competing substitutes such as electronic media and the increasing difficulty experienced in enhancing product performance. Whilst these factors are described as representing the Australian toy industry they are also indicative of the markets to which NSR (HK) sells its toys; and
- other risks inherent in NSR (HK)'s business.

173. Further, in assessing the capitalisation rate for NSR (HK) we also note the following:

- the observed market trading multiples above reflect trading of a portfolio interest in the companies, and therefore exclude any premium for control;

- the companies noted are listed which are generally more marketable than unlisted companies like NSR (HK); and
- the trading multiples stated in the above table are the historical EBITDA multiples. The forecast EBITDA multiples for these companies are not available. We note that forecast EBITDA multiples are generally lower than historical EBITDA multiples observed.

Control Premium

174. We refer to our earlier comments on control premiums in Section X. Under the Proposed Acquisition, Funtastic will acquire 100% of the shares in NSR (HK). On this basis, it is appropriate to include a premium for control in valuing NSR (HK). We note that observed control premiums are an outcome and not a determinate of value however the application of a control premium would not be considered unreasonable in assessing the value of NSR (HK).

175. As noted previously, the observed market trading multiples in Table 25 reflect prices paid for a listed minority interest. The EBITDA multiples observed are in a wide range with average and median EBITDA multiples of 5.65 and 4.5 times respectively.

176. Based on the observed average and median EBITDA multiples and taking into account the above mentioned factors, including marketability discounts and a control premium, we have determined an EBITDA multiple of 3.25 to 3.75 to be appropriate in valuing NSR (HK).

Interest Bearing Debt and Surplus Assets

177. A valuation undertaken by capitalising EBITDA gives the aggregate fair market value of the company on an ungeared basis, commonly referred to as the enterprise value. In order to generate a value of the equity, net interest bearing debt must be deducted from the enterprise value. We note that as at 31 December 2008 NSR (HK) had borrowings of approximately US$3.34 million or equal to AU$5.14 million (based on 1AU$ = 0.65US$). Those borrowings comprise bank debts and various related party loans. However, we are advised that under the Proposed Acquisition the level of debt to be assumed by Funtastic is not more than US$4.91 million or (AU$7.55 million based on 1AU$ = 0.65US$), higher than the level of debt as at 31 December 2008. This agreed higher level of debt is in anticipation of the potential additional working capital required by NSR (HK) to run its operation in FY09 before achieving a cash positive position. Third party performed due diligence on NSR (HK)'s FY09 forecast has indicated that NSR (HK) is expected to start generating positive cash flow in September 2009.

178. In arriving at the equity value of NSR (HK) we have assumed the level of debt to be assumed by Funtastic to be AU$7.55 million.

179. As at 31 December 2008 NSR (HK) does not have any non-operating assets.

Summary Value

180. The table below summarises our assessment of NSR (HK)'s value.

Table 26: Summary Value

	Low AU$'000s	High AU$'000s
Future Maintainable Earnings	3,265	3,265
EBITDA Multiple	3.25x	3.75x
Enterprise value	**10,611**	**12,244**
Less: Bank Debt and Shareholder Loans	(7,550)	(7,550)
Equity Value	**3,061**	**4,694**

Source: BDO Kendalls Securities Analysis

XII ASSESSMENT OF WHETHER THE PROPOSED TRANSACTIONS ARE FAIR AND REASONABLE TO THE NON-ASSOCIATED SHAREHOLDERS

Assessment of the Proposed Acquisition

181. In assessing whether we consider the Proposed Acquisition is fair and reasonable to the Non-Associated Shareholders, we have considered the following factors:

- a comparison of the value of any consideration to be paid under the Proposed Acquisition to the estimated market value of the 100% NSR (HK) shareholding to be acquired;
- the effect on the value of the Non-Associated Shareholders' shareholding in the Company; and
- the advantages and disadvantages of the Proposed Acquisition proceeding and not proceeding.

Assessment of the *Fairness of the Proposed Acquisition*

Consideration paid for the proposed Acquisition compared to the value of the 100% NSR (HK) shareholding

182. The table below sets out the consideration offered by Funtastic for every share in NSR (HK) compared to our assessed value of NSR (HK).

Table 27: Analysis of fairness of the Proposed Acquisition

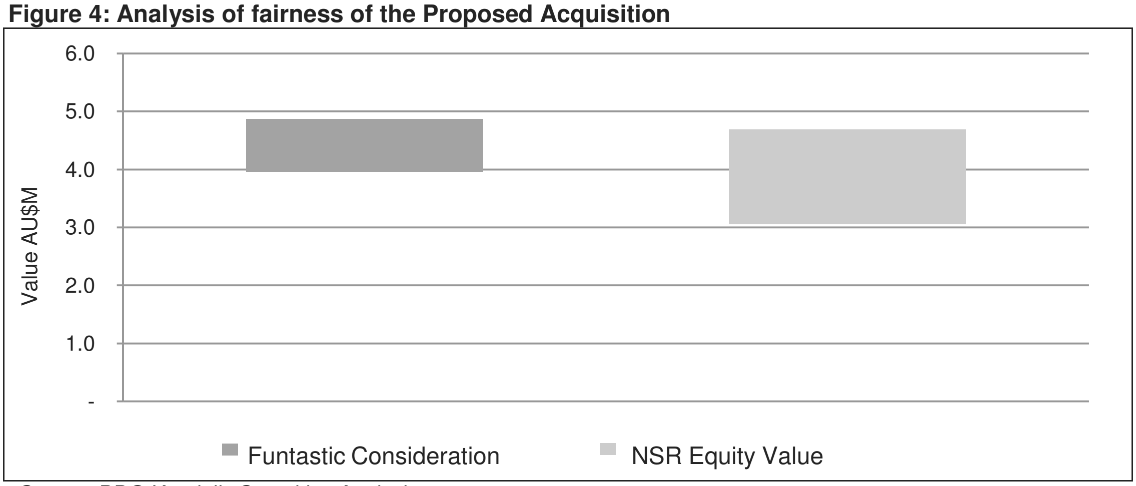
	Low AU$'000s	High AU$'000s
NSR (HK) Equity Value –Table 26	**3,061**	**4,694**
Funtastic's Consideration		
NSR (HK) Future Maintainable Earnings - EBITDA	3,265	3,265
Depreciation and Amortisation	(726)	(726)
NSR (HK) Future Maintainable Earnings - EBIT	**2,539**	**2,539**
Assumed EBIT for FY09 and FY10	2,539	2,539
Shares Issued [1]	**30,469**	**30,469**
Funtastic Value per share [2]	0.13	0.16
Funtastic consideration	**3,961**	**4,875**

Source: BDO Kendalls Securities Analysis

[1] *Total shares to be issued to the Pizmony Entities is calculated using the earn-out formula discussed in Section II based on EBIT of AU$2.5 million for FY09 and FY10 and includes the 10,000,000 Guaranteed Converting Shares.*

[2] *Refer paragraph 154.*

Figure 4: Analysis of fairness of the Proposed Acquisition



Source: BDO Kendalls Securities Analysis

183. We note that the value of NSR (HK) and the assessment of the fairness of the Proposed Acquisition are highly dependent upon the future maintainable earnings level of the business. In the event the earnings of NSR (HK) decline to the level set out in Scenario 1 as detailed in the table below, the consideration payable by Funtastic would be assessed as not fair. However, we are advised in the event that the aggregate of NSR (HK)'s earnings for the period commencing on 1 January 2009 and ending on 31 December 2013 is less than a minimum earnings threshold, no further repayment of the shareholder loans will be made. We note that at the future maintainable earnings level set out in Scenario 1 below, the shareholders loans would be repayable in full. The table below summarises the equity value of NSR (HK) under Scenario 1 and 2 compared to the Funtastic consideration.

Table 28: Sensitivities of NSR (HK) Value Compared to Funtastic Consideration

	Low AU$'000s	High AU$'000s
Scenario 1		
NSR (HK)		
Future Maintainable Earnings – 70% achievement	2,285	2,285
EBITDA Multiple	3.25x	3.75x
Enterprise value	**7,426**	**8,569**
Less: Bank Debt and Shareholder Loans	(7,550)	(7,550)
Equity Value	**(124)**	**1,019**
Funtastic		
Shares Issued [1]	**10,000**	**10,000**
Value per share [2]	0.13	0.16
Funtastic consideration	**1,300**	**1,600**
Scenario 2		
NSR (HK)		
Future Maintainable Earnings – 85% achievement	2,775	2,775
EBITDA Multiple	3.25x	3.75x
Enterprise value	**9,019**	**10,406**
Less: Bank Debt and Shareholder Loans	(7,550)	(7,550)
Equity Value	**1,469**	**2,856**
Funtastic		
Shares Issued [1]	**16,177**	**16,177**
Value per share [2]	0.13	0.16
Funtastic consideration	**2,103**	**2,588**

Source: BDO Kendalls Securities Analysis

[1] Total shares to be issued to the Pizmony Entities is calculated using the earn-out formula discussed in Section II and includes the 10,000,000 Guaranteed Converting Shares.

[2] Refer paragraph 154.

184. Shareholders should recognise that there is significant uncertainty in any estimate of the underlying value of shares in Funtastic and NSR (HK). Value is highly sensitive to the underlying assumptions of the Funtastic and NSR (HK) business models, the significant uncertainty surrounding the revenue of NSR (HK) through its Noddy and Distribution businesses, the outlook for the toy manufacturing and wholesaling industry, changes in the AU$/US$ exchange rate and other economic factors. Further, we also note that any potential upside in NSR (HK)'s performance will result in a higher consideration paid to the vendor; however, it will also provide greater benefits to Funtastic. Similarly, any delay in achievement of forecast revenue, such as sales from the Noddy agreement not occurring as forecast until 2010, will result in a reduction in the cost of the acquisition to Funtastic but not necessarily a corresponding reduction in the value of the NSR (HK) business to be acquired.

185. As noted in paragraph 166 there is some uncertainty around the achievement of NSR (HK)'s forecasts and consequently we have also completed an assessment of the implied EBITDA

multiples based on the two reduced earnings scenarios set out in the table above. In completing this assessment we have adjusted NSR (HK)'s forecast EBITDA based on 70% and 85% achievement of the forecast earnings, of AU$2.285 million and AU$2.775 million respectively and the amount of Funtastic consideration based on those scenarios. We note that these scenarios are presented as a percentage achievement of EBITDA and not revenue. If revenue is lower than forecast this may have a greater percentage impact on EBITDA due to the fixed nature of some of NSR (HK)'s operating expenses. Conversely, we have not taken into account potential synergies in operating expenses that may exist post the Proposed Acquisition. The scenario assessments are set out in the following table.

Table 29: Implied EBITDA Assessment Based on Different Earnings Scenarios

NSR (HK)	Low AU$'000s	High AU$'000s
Scenario 1 - 70% achievement of EBITDA		
Shares Issued [1]	**10,000**	**10,000**
Funtastic Value per share [2]	0.13	0.16
Funtastic consideration	**1,300**	**1,600**
Add: Bank Debt and Shareholder Loans	7,550	7,550
Assumed Enterprise Value of NSR (HK)	**8,850**	**9,150**
NSR (HK) Maintainable EBITDA	2,285	2,285
Implied EBITDA Multiple	**3.87**	**4.00**
Scenario 2 – 85% achievement of EBITDA		
Shares Issued [1]	**16,177**	**16,177**
Funtastic Value per share [2]	0.13	0.16
Funtastic consideration	**2,103**	**2,750**
Add: Bank Debt and Shareholder Loans	7,550	7,550
Assumed Enterprise Value of NSR (HK)	**9,653**	**10,138**
NSR (HK) Maintainable EBITDA	2,775	2,775
Implied EBITDA Multiple	**3.48**	**3.65**

Source: BDO Kendalls Securities Analysis
[1] Total shares to be issued to the Pizmony Entities is calculated using the earn-out formula discussed in Section II based on an EBIT of AU$1.56 for scenario 1 and AU$2.05 million for scenario 2 and includes the 10,000,000 Guaranteed Converting Shares.
[2] Refer paragraph 154.

186. On the basis of the observed multiples discussed in paragraph 171 and the further comments in paragraph 172, we consider that the implied EBITDA multiples under Scenario 1 and Scenario 2 are within the range of the multiples that the market would expect for a business of this nature. As a result, we consider **the Proposed Acquisition is fair**.

Foreign exchange sensitivity analysis

187. We note that in their assessment of the NSR (HK) financial performance, Funtastic adopted an exchange rate of 1AU$ = 0.65US$. The value of NSR (HK) and the Funtastic consideration payable under the Proposed Acquisition is highly sensitive to the AU$/US$ exchange rate. Accordingly we have performed a foreign exchange sensitivity analysis to show the effect of a fluctuation of exchange rate to the fairness of the Proposed Acquisition. The table below summarises this sensitivity adopting the Australian dollar equivalent of the forecast FME of US$2,122,250.

Table 30: Effect of changes in US$/AU$ exchange rate on NSR (HK) value

	1AU$ = 0.55US$		1AU$ = 0.65US$		1AU$ = 0.80US$	
	Low AU$'000s	High AU$'000s	Low AU$'000s	High AU$'000s	Low AU$'000s	High AU$'000s
NSR (HK)						
FME	3,859	3,859	3,265	3,265	2,653	2,653
EBITDA Multiple	3.25x	3.75x	3.25x	3.75x	3.25x	3.75x
Enterprise value	**12,541**	**14,471**	**10,611**	**12,244**	**8,622**	**9,948**
Less: Bank Debt and Shareholder Loans	(8,927)	(8,927)	(7,550)	(7,550)	(6,137)	(6,137)
Equity Value	**3,614**	**5,544**	**3,061**	**4,694**	**2,485**	**3,811**
Funtastic						
Shares Issued[1)]	**35,390**	**35,390**	**30,469**	**30,469**	**25,346**	**25,436**
Value per share[2)]	0.13	0.16	0.13	0.16	0.13	0.16
Funtastic Consideration	**4,601**	**5,662**	**3,961**	**4,875**	**3,295**	**4,055**

Source: BDO Kendalls Securities Analysis
[1] Total shares to be issued to the Pizmony Entities is calculated using the earn-out formula discussed in Section II based on an EBIT of AU$2.54 million and includes the 10,000,000 Guaranteed Converting Shares.
[2] Refer paragraph 154.

188. The table above illustrates that under the structure of the Proposed Acquisition any movement in the NSR (HK) equity value due to the AU$/US$ exchange rate is largely offset by the movement in the number of Funtastic shares to be issued. As a result, the Proposed Acquisition under the various foreign exchange rate scenarios is still considered to be fair.

Assessment as to Reasonableness of the Proposed Acquisition

Effect of the Proposed Transactions on the value of non-associated shareholders shareholding

189. Set out below is the balance sheet of Funtastic as at 31 December 2008 prior to the Proposed Transactions and a pro forma consolidated balance sheet of Funtastic following the Proposed Transactions.

Table 31: Funtastic financial position before and after the Proposed Transactions

	Funtastic 31-Dec-08 $000s	Pro forma NSR (HK) 31-Dec-08 $000s[1]	Proposed Rights Issue $000s	Pro forma Funtastic 31-Dec-08 $000s
Current assets				
Cash	5,769	2,410	-	8,179
Trade and other receivables	56,225	595	-	56,820
Inventories	55,982	-	-	55,982
R&D - capitalised	-	609	-	609
Other	28,714	612	-	29,326
Current tax assets	2,109	-	-	2,109
Total current assets	**148,799**	**4,226**	**-**	**153,025**
Non-current assets				
Property, plant and equipment	6,019	880	-	6,899
Goodwill	97,634	-	-	97,634
Other intangibles	676	-	-	676
Deferred tax assets	5,396	-	-	5,396
Total non-current assets	**109,725**	**880**	**-**	**110,605**
Total assets	**258,524**	**5,105**	**-**	**263,629**
Current liabilities				
Trade and other payables	22,571	1,065	-	23,636
Borrowings	23,463	2,300	(2,300)	23,463
Provisions	9,251	-	-	9,251
Interest bearing deferred purchase consideration	2,261	-	-	2,261
Other	23,067	-	-	23,067
Other Financial Liabilities	11	-	-	11
Total current liabilities	**80,624**	**3,364**	**(2,300)**	**81,689**
Non-current liabilities				
Borrowings	49,370	-	(17,609)[2)]	31,761
Provisions	903	-	-	903
Deferred tax liabilities	9,083	-	-	9,083
Interest bearing deferred purchase consideration	4,469	-	-	4,469
Loan from a shareholder		5,250	(1,316)[2)]	3,934
Other Financial Liabilities	2,294	-	-	2,294
Total non-current liabilities	**66,119**	**1,840**	**(18,925)**	**52,444**
Total liabilities	**146,743**	**8,615**	**(21,225)**	**134,133**
Net assets	**111,781**	**(3,510)**	**21,225**	**129,496**
Net tangible assets	**13,471**	**(3,510)**	**21,225**	**31,186**
Shares on issue	165,498,841	50,000,000[3]	165,498,841	380,997,682
Net Tangible Asset per share (cents)	**8.1**			**8.2**
Debt-to-equity ratio	**71.2%**			**50.5%**

Source: Management Accounts

[1] *NSR (HK)'s pro forma financial position as at 31 December 2008 is adjusted by taking into account the level of debt of approximately AU$7.55 million. The figures in the adjusted pro forma financial position are converted into AU$ based on the exchange rate of 1AU$ = 0.65 US$*

[2] *The net proceeds of the Proposed Rights Issue (165,498,841 shares issued at $0.135 per share) after deducting the underwriting fee of 5% of the total proceeds are assumed to repay Funtastic's existing borrowings and to repay NSR (HK)'s shareholder loans of AU$1.32 million (AU$0.65 million will be repaid by the later of 1 July 2009 or the business day after completion of the Proposed Rights Issue and AU$0.67 million will be repaid on 1 January 2010) and the remaining balance of the shareholder loans will only be paid if the earnings hurdle is achieved.*

[3] *The maximum number of shares to be issued under the Proposed Acquisition*

190. Our analysis above indicates that Funtastic's pro forma net tangible asset position at 31 December 2008 after the Proposed Transactions will increase from AU$13.5 million to AU$31.2 million. We note that net tangible assets per share will increase from 8.1 cents per share to 8.2 cents per share based on 380,997,682 shares being the maximum number of shares on issue if the Proposed Transactions proceed.

Advantages and disadvantages of the Proposed Acquisition proceeding

191. The advantages of the Proposed Acquisition proceeding can be summarised as:

- the Proposed Transactions are interdependent. If they proceed, it will result in the Company raising some $21 million to reduce existing debt levels and provide working capital going forward resulting in an increase in Funtastic's net tangible assets from AU$13.5 million to AU$31.2 million (8.1 cents to 8.2 cents per share) and a decrease in Funtastic's gearing ratio (defined as borrowings and interest bearing deferred purchase consideration divided by net assets) from 71% to 51%. Given the existing high levels of debt held by Funtastic and the current uncertainty surrounding debt and equity markets, the completion of these two transactions will place the Company in a stronger financial position;
- the acquisition of NSR (HK) provides Funtastic with the design and manufacturing capabilities of NSR (HK) which have traditionally achieved higher margins than the wholesale and distribution operations. As a result, Funtastic will be able to enhance its existing business operations and potentially achieve a level of vertical integration of operations;
- Pizmony and Pizem have significant experience in the toy industry and Funtastic plans to capitalise on their knowledge to further enhance their operations. The integration of Pizmony and Pizem into Funtastic's management team will also strengthen the overall corporate management of Funtastic and maximise the Company's business opportunities;
- by acquiring NSR (HK), Funtastic is also directly acquiring several reputable worldwide licenses that can be integrated into their existing portfolio of brands and increase the depth of their product range;
- as NSR (HK) transacts predominantly in US dollars (ie. its income is recognised in US$), Funtastic will achieve a natural hedging position as a significant level of their purchases are currently exposed to movements in the US$ exchange rate;
- as part of the Proposed Acquisition, Funtastic (for no additional consideration) will be granted a pre-emptive right to acquire 40% of the issued shares in ToyMonster until 31 January 2010. These future options represent further potential advantages to Funtastic if the Proposed Acquisition proceeds. ToyMonster is a Hong Kong based toy company controlled by Pizmony;
- NSR (HK) has existing relationships with other global companies within the toy industry and as such Funtastic has the potential opportunity to collaborate with these global companies to maximise their future business operations; and
- the Proposed Acquisition allows Funtastic to achieve synergies through utilising Funtastic's existing distribution channels; integrating Funtastic's international business with NSR (HK) and potential synergies in relation to product sourcing and cost saving in relation to manufacturing activities.

192. The disadvantages of the Proposed Acquisition proceeding can be summarised as:

- There is significant uncertainty surrounding the timing and the ability of NSR (HK) to achieve its forecast sales and margins for the Noddy and Distribution businesses. In the event NSR (HK) is not able to achieve these forecasts it will have an adverse affect on the value of the NSR (HK) business which would have a negative impact on the value of Funtastic;

- the Proposed Acquisition may result in the Non-Associated Shareholders' shareholding in the Company being significantly diluted, depending on their participation in the Proposed Rights Issue;
- Following completion of the Proposed Transactions, the Mathieson Entities and the Pizmony Entities may have a substantial shareholding in Funtastic. The size of that shareholding will depend on the number of shares issued to the Pizmony Entities in connection with the Proposed Acquisition and the number of shares issued to the Mathieson Entities in connection with the Proposed Rights Issue, and could vary from a total of 11.2% and 60.3% of the shares in Funtastic (see paragraphs 94 – 97 below). The presence of the Mathieson Entities and the Pizmony Entities as substantial shareholders may act as a disincentive to any future takeover of Funtastic by a third party, assuming the Mathieson and the Pizmony Entities remain associates after implementation of the Proposed Transactions. Making this same assumption, the Mathieson Entities and the Pizmony Entities could subsequently make a takeover offer for the remaining Funtastic shares at a price that does not incorporate the same premium that a bidder who does not already have effective control of Funtastic may offer. However, since there are three shareholders of Funtastic who each hold an interest of 10% or more in Funtastic, it is possible that such shareholders could, separately or together, block any proposed takeover offer unless an appropriate premium was offered; and
- NSR (HK) has a negative cash position and will require additional working capital to fund its operations in the near-term. Funtastic will be required to fund the acquisition and the short-term working capital requirement and this may impact the Company's ability to meet its debt repayment strategy.

Advantages and disadvantages of the Proposed Acquisition not proceeding

193. The advantages of the Proposed Acquisition not proceeding can be summarised as:

- there will be no dilution in the shareholding of Non-Associated Shareholders; and
- Funtastic will not be exposed to the potential risks of the NSR (HK) business, which is still being established.

194. The disadvantages of the Proposed Acquisition not proceeding can be summarised as:

- as the Proposed Transactions are interdependent, should the Proposed Transactions not proceed, Funtastic may be required to seek alternative methods of raising capital and repaying debt. Considering Funtastic's current financial position, access to new capital or debt facilities may be limited and the cost of funds offered by financiers is likely to be higher than the current cost of funds. As noted previously, we consider it unlikely that alternative underwriting arrangements on more favourable terms than the Proposed Rights Issue would be possible in the current market. Further, in the aftermath of the recent credit crisis in the United States sub-prime mortgage market, higher funding costs and a lack of liquidity have been observed in funding markets. In the event Funtastic's financiers place further pressure on Funtastic to reduce debt levels the Company may be required to either realise existing assets at less than book value or raise further capital that will result in the dilution of Non-Associated Shareholders unless they participate in future capital raisings;
- given that Funtastic has a maturing stable of brands and is limited to being a wholesaler of toys, the Company has limited ability to grow its existing business without acquiring either new brands or the ability to participate in the design and manufacture of toys;
- as Funtastic has finite licenses for the toys it distributes, there exists a risk that the licensors of these brands may decide to enter the distribution market themselves upon expiry of the existing licenses which would erode Funtastic's financial performance; and
- the share price of Funtastic may currently reflect the market's expectation that the Proposed Transactions are successfully completed. In the event they do not occur, the share price of the Company may be negatively impacted resulting in further funding and dilution risks for the Company and Non-Associated Shareholders respectively.

Accordingly, we consider the Proposed Acquisition **to be reasonable,** as the advantages of the Proposed Acquisition proceeding outweigh the disadvantages.

Conclusion on the Assessment of the Proposed Acquisition

195. After considering all of the above factors, on balance, we consider the Proposed Acquisition is **fair and reasonable** to the Non-Associated Shareholders as **the advantages of the Proposed Acquisition proceeding outweigh the disadvantages**.

Assessment of the Proposed Rights Issue

196. In assessing whether we consider the Proposed Rights Issue (including the underwriting arrangements) is fair and reasonable to the Non-Associated Shareholders, we have considered the following factors:

- a comparison of the value of any consideration to be received under the Proposed Rights Issue to the estimated market value of Funtastic;
- the effect on the value of the Non-Associated Shareholders' shareholding in the Company; and
- the advantages and disadvantages of the Proposed Rights Issue proceeding and not proceeding.

Assessment of the Fairness of the Proposed Rights Issue

197. The Proposed Rights Issue is being undertaken at AU$0.135 cents per share which represents a 15% discount to the 1 and 2 month VWAP pre-announcement of $0.16. Furthermore, the underwriter, Elsie May, is being paid an underwriting fee of 5%. It is common practice that the greater the discount, the lower the underwriting fee required to compensate the underwriter's risk, as it is more likely that the existing shareholders will participate in the rights issue if it is at a greater discount to the current share price. In our experience a discount of 15% to the 2 month VWAP pre-announcement in concert with an underwriting fee of 5% is reasonable and consistent with market practice. Further, we consider it is unlikely that alternative underwriting arrangements on significantly more favourable terms than those negotiated would be possible in the current market.

198. Our valuation assessment shows that Funtastic's value per share is in the range of AU$0.13 to AU$0.16 per share (refer to Section X). The table below shows the comparison of Funtastic's value per share with the issue price under the Proposed Rights Issue.

Table 32: Analysis of fairness of the Proposed Rights Issue

	Low AU$	High AU$
Assessed Funtastic value per share[1]	**0.13**	**0.16**
Proposed Rights Issue	**0.135**	**0.135**

Source: BDO Kendalls Securities Analysis
Note 1 Refer paragraph154

199. On the basis the issue price under the Proposed Rights Issue is within our assessed value range for Funtastic we consider **the Proposed Rights Issue is fair**. As a corollary of this, we also consider **that any increase in the relevant interest of the Mathieson Entities and/or the Pizmony Entities arising from the Underwriter acquiring any shortfall shares under the underwriting arrangements is fair**. This is because the pricing of the Proposed Rights Issue gives all Funtastic's shareholders an equal opportunity on fair terms to preserve their proportionate shareholding and not have their interests diluted.

Assessment of the Reasonableness of the Proposed Rights Issue

200. On the basis that the Proposed Rights Issue and the underwriting arrangements are fair we consider the terms of the **Proposed Rights Issue and the underwriting arrangements are reasonable** to the Non-Associated Shareholders. We also refer you to the assessment of reasonableness of the Proposed Acquisition set out above.

Conclusion on the Assessment the Proposed Right Issue

201. In conclusion, on balance we consider **the Proposed Rights Issue (and underwriting arrangements) to be fair and reasonable** to the Non-Associated Shareholders as **the advantages of the Proposed Rights Issue (and underwriting arrangements) proceeding outweigh the disadvantages.**

APPENDIX A – QUALIFICATION, LIMITATION AND CONSENTS

This report is not intended for general circulation or publication, nor is it to be reproduced or used for any purpose other than that outlined in this report without our prior written permission. We do not assume any responsibility or liability for losses, occasioned to you or other parties, as a result of circulation, publication, reproduction or use of this opinion contrary to the provisions of this paragraph.

Statements and opinions contained in this report are given in good faith and, in the preparation of this report, BDO Kendalls Securities has relied upon the information provided by Funtastic that has been publicly issued, and believes, on reasonable grounds, to be reliable, complete and not misleading. BDO Kendalls Securities does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

Furthermore, recognising that BDO Kendalls Securities may rely on information provided by Funtastic and their officers and/or associates, Funtastic has agreed to make no claim against BDO Kendalls Securities to recover any loss or damage which Funtastic may suffer as a result of that reliance and also has agreed to indemnify BDO Kendalls Securities against any claim arising out of the assignment to give this report, except where the claim has arisen as a result of any proven wilful misconduct by BDO Kendalls Securities.

An advance draft of this report was provided to Funtastic for review of factual matters. The draft did not contain any conclusions. Certain changes were made to the factual contents of the report as a result of comments received. There were no alterations to the methodology adopted or our conclusions as a result of circulating the draft report.

BDO Kendalls Securities is the licensed corporate advisory business of BDO Kendalls (NSW–VIC) Pty Ltd. BDO Kendalls Securities provides advice in relation to all aspects of valuations and has extensive experience in the valuation of corporate entities.

The directors of BDO Kendalls Securities principally involved in the preparation of this report was Phillip Rundle B COM, FCA, GAICD, F.Fin. and Vera Baumgartner M BUS ADMIN and ECON. Phillip and Vera have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of independent expert reports. Phillip Rundle and Vera Baumgartner are representatives of BDO Kendalls Securities.

BDO Kendalls Securities consents to the inclusion of this IER by Funtastic in the Explanatory Notes to accompany a Notice of Meeting in the form and content that it is included. Neither the whole nor any part of this report nor any reference thereto may be included in or with or attached to any document, circular, resolution, letter or statement without the prior written consent of BDO Kendalls Securities to the form and context in which it appears.

BDO is not the auditor of Funtastic. Neither BDO Kendalls Securities, nor any director, executive or employee thereof has any financial interest in the outcome of the Proposed Transactions which could be considered to affect our ability to render an unbiased opinion in this report. Neither BDO Kendalls Securities nor the authors of this report have any interest in the outcome of the offer. BDO Kendalls Securities is entitled to receive a fee of approximately $60,000 from the Company based on normal professional hourly rates for the time taken in respect of the preparation of this report. The fee will be paid regardless of whether or not the Proposed Transactions are approved by shareholders. BDO Kendalls Securities considers itself to be independent in terms of Regulatory Guide 112.

APPENDIX B – SOURCES OF INFORMATION RELIED UPON IN THIS REPORT

In preparing this report and arriving at our opinion, we have considered, amongst others, the following sources of information:

- ASX Announcements
- Discussions with Management
- Final Draft Notice of Annual General Meeting and Explanatory Notes
- Final copy of Share Sale Agreement relating to shares in NSR (HK) Ltd
- Final copy of Underwriting Agreement between Funtastic and the Underwriter
- Funtastic Audited Annual Reports for the years ended 31 December 2007 and 2008
- Funtastic budget for the year ended 31 December 2009
- Funtastic budget review undertaken by Deloitte
- Funtastic's shareholder listing at 25 March 2009
- Hkeepod Management Accounts for the year ended 31 December 2008
- Hod Pizem NSR Share Subscription Deed
- NSR (HK) Audited Annual Report for the year ended 31 December 2007
- NSR (HK) budgets for the years ended 31 December 2009 and 2010
- NSR (HK) Business Plan 2009
- NSR (HK) Management Accounts for the year ended 31 December 2008
- NSR (HK) Noddy Master Toy License Agreement
- NSR (HK) Organisational Structure chart
- NSR (HK) Pro Forma accounts for the year ended 31 December 2008
- Proposed Transactions Term Sheet and changes dated 03/04/2009
- Randy Heward NSR (HK) Share Sale Deed
- Sample NSR (HK) Noddy Sub-License Agreement

APPENDIX C – FUNTASTIC COMPARABLE COMPANIES

Table 33: Funtastic Comparable Companies

Company	Description	Currency	Enterprise Value $M	Historic Revenue $M	Historic EBITDA $M	Forecast EBITDA $M	Historic EBITDA Multiple	Historic EBITDA Margin	Forecast EBITDA Multiple
Funtastic Limited	**Markets and distributes consumer branded lifestyle merchandise. The main activity consists of wholesale and distribution of products, such as children's toys, apparel and footwear.**	**AUD**	**95.2**	**357.7**	**30.7**	**20.0**	**3.1**	**8.6%**	**4.8**
Mattel Inc	Designs, manufactures, and markets a broad variety of children's products on a worldwide basis. The Company sells its products to retailers and directly to consumers.	USD	5,068.2	5,918.0	587.1	793.4	8.6	9.9%	6.4
Hasbro Inc	Designs, manufactures, and markets toys, games, interactive software, puzzles, and infant products in the United States and internationally.	USD	3,820.1	4,021.5	572.6	682.6	6.7	14.2%	5.6
Pacific Brands Ltd	Manager of consumer brands in Australia and New Zealand. The Company markets brands like Berlei, Bonds, Clarks, Dunlop, Everlast, Grosby, Holeproof, Hush Puppies, KingGee, Slazenger, Sleepmaker and Tontine.	AUD	1,021.8	2,116.6	240.4	159.8	4.3	11.4%	6.4
Low							**4.3**		**5.6**
Average							**6.5**		**6.1**
Median							**6.7**		**6.4**
High							**8.6**		**6.4**

Source: Bloomberg as at 30 April 2009, BDO Kendalls Securities Analysis

APPENDIX D – HONG KONG TOY COMPANIES

Table 34: Hong Kong Toy Companies

Company	Description	Enterprise Value HK$M	Historic Revenue HK$M	Historic Revenue Multiple	Historic EBITDA HK$M	Historic EBITDA Margin	Historic EBITDA Multiple
Matrix Holdings Limited	Through its subsidiaries, manufactures and trades gifts and novelties.	418.6	1,273.6	0.33	128.5	10.1%	3.3
Kader Holdings Co Ltd	Through its subsidiaries, manufactures and sells electronic, plastic and stuffed toys and model trains.	343.6	721.7	0.48	110.6	15.3%	3.1
Smart Union Group (Holdings)	Manufactures and trades toys and recreational products. The Company's product categories include hard and electronic toys for children, educational and recreational, soft toys, and sports products.	193.1	953.6	0.20	43.5	4.6%	4.4
Rainbow Brothers Holdings Ltd	Designs and develops party and festivity, stationery and gift, and household and garden products and toys. The Company primarily markets its products to dollar stores.	155.6	371.6	0.42	33.7	9.1%	4.6
Lung Cheong Intl Hldgs Ltd	Through its subsidiaries, designs, manufactures, and sells toys and moulds.	531.2	799.1	0.66	40.7	5.1%	13.0
RBI Holdings Limited	Through its subsidiaries, designs, manufactures, and sells toys and moulds.	227.6	525.9	0.43	41.4	7.9%	5.5
Low				**0.20**			**3.1**
Average				**0.42**			**5.65**
Median				**0.42**			**4.5**
High				**0.66**			**13.0**

Source: Bloomberg, BDO Kendalls Securities Analysis

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ABN 94 063 886 199

000001 000 FUN
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Lodge your vote:

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

By Hand:
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street,
Abbotsford Victoria 3067 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For all enquiries call:

(within Australia) 1300 850 505
(outside Australia) +61 3 9415 4000

Proxy Form

For your vote to be effective it must be received by 10.00am Saturday 27 June 2009

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions

Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.computershare.com.

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

Turn over to complete the form ➔

View your securityholder information, 24 hours a day, 7 days a week:
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- ☑ **Review your securityholding**
- ☑ **Update your securityholding**

Your secure access information is:

SRN/HIN: I9999999999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 9999999999 IND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Funtastic Limited hereby appoint

☐ **the Chairman of the meeting** **OR** ____________________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of Funtastic Limited to be held at the RACV Club, Level 2, Bourke Rooms 1 & 2, 501 Bourke Street, Melbourne on Monday, 29 June 2009 at 10.00am and at any adjournment of that meeting.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
Ordinary Business				
Item 2	Adoption of the Remuneration Report	☐	☐	☐
Item 3	Election of Shane Tanner as a Director	☐	☐	☐
Item 4a	Re-election of Graeme Yeomans as a Director	☐	☐	☐
Item 4b	Re-election of David Berry as a Director	☐	☐	☐
Special Business				
Item 5	Proposed Acquisition of NSR	☐	☐	☐
Item 6	Amendment to Constitution	☐	☐	☐
Item 7	Rights Issue and underwriting arrangements	☐	☐	☐

Shareholders should read the voting restrictions set out on page 14 of the Explanatory Notes to the Notice of Annual General Meeting which this proxy form accompanies.

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ____________________ **Contact Daytime Telephone** ____________________ **Date** ___/___/___