funtastic
LIMITED

26th June 2009

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

Dear Sir,

ASX Announcement – Funtastic announces sale of Businesses and provides a Trading and General Update

Attached is an Announcement concerning sale of businesses, a trading update and a general update, the subject of which relates to the trading halt requested on 25 June 2009.

Yours faithfully

D J Berry
Company Secretary

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ASX ANNOUNCEMENT

Sale of Business Units, Trading & General Update

Funtastic provides the following updates in relation to the sale of non-core businesses, debt reduction, matters to be considered at the upcoming Annual General Meeting and an update in relation to trading conditions for the first half of 2009.

1. Asset Sales and Discontinuing Businesses

The first half of the year has been a period of major rationalisation and restructuring within the Funtastic Group. The new management team, led by Stewart Downs, has identified a number of business units as non core. As a consequence, a sale process was commenced a number of months ago and that process is currently approaching a successful conclusion for a number of non core business units.

The sale of the discontinuing business units of Apparel, Footwear and Planet Fun (New Zealand) are expected to be completed within the next 60 days. Proceeds from non core asset sales (if all successfully concluded) are expected to be approximately $20 million in aggregate and will be used to reduce debt within the group. These discontinuing business units have collectively made a negative contribution to Earnings Before Interest, Tax, and Amortisation (EBITA) in the first half.

In this regard the Company is pleased to provide the following updates:

- Funtastic entered into binding sale agreements for the sale of its Footwear and Planet Fun (New Zealand) business units on 24 June 2009. The Footwear business unit will be sold to Corell Licensing Pty Ltd, a joint venture between Corell Holdings, a second generation specialty footwear supplier, and business partners David Rosenberg and Jeff Moss, former owner and CEO of the Pretty Girl Fashion Group. The Planet Fun (New Zealand) business unit will be sold to the business unit's local Auckland-based senior management and local investors;

- On 25 June 2009, the Company signed a sale agreement in respect of its Apparel business with Mercury Brands Limited, an ASX listed apparel company based in Melbourne with a portfolio of over 20 leading lifestyle brands and licenses across women's, men's and children's wear. The Apparel sale agreement is subject to Mercury Brands finalising its funding arrangements in respect of the acquisition; and

- Funtastic has received offers from various parties for its Manchester business unit, which it is currently considering.

The completion of the abovementioned sale processes, together with the simplified operational restructure, will result in a significant reduction in head count and result in Funtastic becoming a focussed Toy and Entertainment business. This is particularly important to the Company's turnaround strategy, given the proposed acquisition of NSR (HK) Ltd that will allow the Company to expand into proprietary development and sale of its own toy products and under master global toy licenses.

2. Debt Reduction and Re-Negotiation of Banking Facility

The Company has recently completed a re-negotiation of its banking facilities with the National Australia Bank and is pleased to announce that it has received a formal offer for the facilities to be extended through to June 2011 on terms that allow the restructuring process and turnaround to be completed by the Board. The extension of the banking facilities is conditional on the proposed $22 million Rights Issue being successfully completed.

As a consequence of the various actions taken, the Company expects that its net debt level at the end of December 2009 will be substantially below that of the previous year.

3. NSR Acquisition and Capital Raising

Shareholders will vote on the acquisition of NSR (HK) Limited and the conducting of a fully underwritten one-for-one non renounceable Rights Issue at the Annual General Meeting scheduled for 10 am at the RACV Club, Melbourne on 29 June, 2009. Offer Documentation associated with the Rights Issue is expected to be forwarded to shareholders shortly after the AGM.

The net proceeds from the $22 million capital raising will be used by Funtastic to pay down debt and for working capital purposes (including NSR).

The Company's due diligence on the NSR acquisition has been satisfactorily completed and NSR remains on track to achieve its budgeted EBITA contribution. More importantly, NSR is anticipating several major distribution and master licensing deals that are expected to make a solid contribution to Funtastic Limited earnings growth in 2010 and beyond.

4. Trading Update

Funtastic Limited advises that trading conditions for the first half of 2009 have been challenging and the Company expects to record an EBITA loss for the six months to 30 June, 2009 of approximately $10 million.

The result for the half-year will be impacted by a number of factors including:

- Charges relating to restructuring initiatives;
- Significantly lower profit contribution from the Judius business due to the failure of ABC Learning Centres;
- Negative contributions from discontinuing business units which are currently in the process of being sold;
- The volatility in the Australian dollar impacting gross margins and inventory; and
- Lower margins as a result of clearance activity and increased stock provisioning in our toys business

Revenue for our Toy & Lifestyle and Madman businesses are up on last year reflecting the success of our sporting goods range and the continued growth in the Madman DVD product range. However this has been offset by declines in revenue from Judius following the failure of ABC Learning Centres and lower revenues from discontinuing business units. As a result, we expect revenue for the half year to be approximately 15% lower than for the corresponding period in 2008.

The second half of the year is always more buoyant than the first half given the cyclical nature of the Funtastic business. However, given the poor start to the year, the Directors expect that EBITA for the 2009 year will be materially lower than previously advised to the market.

The Directors continue to believe that the lower than expected 2009 result is not representative of the longer term earnings opportunities the company will derive from its core businesses of Toy & Lifestyle, Madman and Entertainment, and particularly after the NSR (HK) business is acquired.

5. Asset Impairment

The proposed sale of the Company's discontinuing businesses will result in write-downs in goodwill and asset impairment. These write-downs and charges are expected to be approximately $13 million and will result in the Company recording a net loss for the 12 months ending 31 December 2009.

6. Annual General Meeting

The Board reminds shareholders that the Annual General Meeting of Funtastic will take place at 10 am on 29 June at the RACV Club, 501 Bourke Street, Melbourne. The Board strongly recommends that all shareholders attend the AGM in person or via Proxy and vote in favour of all resolutions.

The proposed Capital Raising, Sale of Non-Core Businesses, Debt Reduction, Acquisition of NSR and re-focussing of the core businesses represent significant milestones in Funtastic's turnaround strategy which will see a rejuvenated Funtastic emerge over the course of the coming months.

For more information on Funtastic, visit the web site at www.funtastic.com.au and for comment contact Anna Kirby, Public Relations for Funtastic Limited Ph: 03 9486 9357.