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funtastic™

Chairman and CEO Addresses
AGM 2009

2009 AGM

CHAIRMAN'S ADDRESS

Graeme Yeomans

Introduction

- Joined Funtastic Board late 2007
- Appointed Chairman September 2008
- In 2008, the Company experienced another year of challenge driven by uncertainty and significant changes
- Those changes and challenges are not over, your Company is still in the process of revitalising the business and setting the path for the way forward
- Today, CEO Stewart Downs and I will provide a review of the challenges of 2008, the activities of 2009 and our plans for 2010 and beyond.

Key Financial Results 2008

- Group revenue of \$368.2m in 2008 compared to \$394.3m in 2007
- Group Earnings Before Interest Tax and Amortisation (EBITA) before significant items of \$30.4m compared to 2007 of \$22.1m
- EBITA from continuing businesses excluding significant items of \$28.1m compared to 2007 of \$22.9m
- Reported Net Profit after tax (NPAT) was \$(50.8)m compared to 2007 of \$5.2m

Key Financial Results 2008

- After taking into account tax, the total Significant items impact on Funtastic's after tax loss was \$(64.1)m, of which \$49.2m were non cash charges
- Inventory was \$56.0m at the end 2008 compared to \$53.5m at the end of 2007
- Net Bank Debt was \$67.1m in 2008 which was \$18.0m lower than 2007

*Note Group Revenue and Group EBITA includes both continuing and discontinuing operations

What we faced in 2008

COLLAPSE OF ABC LEARNING

MGA / BRATZ LITIGATION

LOWER APPAREL SALES

TOY PROFITABILITY

FOUNDER AND CHAIRMAN RETIRED

MANAGING DIRECTOR RESIGNED

DEBT PROFILE

BANKING RATIOS SHIFTED

What we faced in 2008

COLLAPSE OF ABC LEARNING

- Funtastic purchased Judius from ABC Learning Centres on 8 November 2006
- Deal was seen as sound fit with Funtastic's stated strategies
- Collapse of ABC Learning in November 2008 not foreseen by the Company
- Following the appointment of receivers, the Board made a series of write-offs and provisions against the value of our exposure to the ABC Group totaling \$51m
- Over and above these write-offs, the collapse of ABC Learning was a significant disruption and distraction for the Funtastic Business

What we faced in 2008

MGA

- Challenge by Mattel for the Bratz intellectual property
- US court verdict in July 2008 in favour of Mattel
- MGA appeal

LOWER APPAREL SALES

What we faced in 2008

TOY PROFITABILITY

- Reshaped Funtastic Toy business under Stewart Downs' guidance in 2008

FOUNDER AND CHAIRMAN RETIRED

- David Hendy announced his retirement in September 2008

MANAGING DIRECTOR RESIGNED

- Tony Oates resigned as Managing Director in February of this year

What we faced in 2008

DEBT PROFILE

- 2008 saw us continue the theme of reducing bank debt
- Our closing December 2008 Net Bank Debt of \$67.1m was \$18.0m lower than that at December 2007
- Reducing the level of debt has and will continue to be a key focus of management

BANKING RATIOS SHIFTED

- The Board chose to take a more conservative approach to our balance sheet and improve the gearing of your Company in light of the current economic climate and the significant events of 2008

Outcomes of 2008

STRATEGIC PLAN

- The Company made significant progress towards achieving our strategic plan including:
 - ✓ Returning Toys to an acceptable profitability
 - ✓ Implementing a debt reduction program
 - ✓ A comprehensive short and medium term cost reduction plan
 - ✓ Evaluation of non-core business units

Outcomes of 2008

PEOPLE

- The Board placed a focus on reviewing the needs of the business, the management structure and the existing pool of talent
- The result is a reinvigorated management team

The Future

KEY DECISION MAKERS

- Appointment of Shane Tanner as Non-Executive Director
- Appointment of Stewart Downs as CEO

The Future

REDUCE DEBT

- Capital raising – the \$22 million fully underwritten capital raising announced
- Sale of non-core assets
 - ▶ Publishing
 - ▶ Footwear
 - ▶ Planet Fun New Zealand
 - ▶ Apparel
- Currently considering offers for Manchester
- Sales will raise approx. \$20m which will be applied to reduction of debt

The Future

PROPOSED NSR ACQUISITION

- Offers Funtastic the potential to be a global toy manufacturing business which distributes products to 25 different countries

Our Commitment

REGAIN FOCUS

IMPROVE WORKING CAPITAL

EXPAND TALENT POOL AND
CONSOLIDATE THE TEAM

WE WILL BE AN INTEGRATED
TOY, LIFESTYLE & ENTERTAINMENT
BUSINESS

GOING GLOBAL

2009 AGM

CEO'S ADDRESS

Stewart Downs

CLEAR DECISIVE POSITIONING OF THE COMPANY

- Focus on objectives
- Clarity of roles and responsibilities
- Simplicity in approach

First 100 days

FOCUS THROUGH NEW CORPORATE STRUCTURE

- Was 15 business units
- Now 2 clear operating pillars
 - ▶ Toy & Lifestyle Merchandise
 - ▶ Madman & Interactive Entertainment

First 100 days

CLARITY OF ROLES

- Reduced the senior management team (directly reporting to CEO) from 13 to 6

CLARITY OF RESPONSIBILITY

- Delegated responsibility to the management team
- Accountability
- Clear Scorecard

First 100 days

BOARD APPROVAL ON NEW DIRECTION

- Integrated Toy, Lifestyle & Entertainment business

SALE OF NON-CORE ASSETS

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First 100 days

RESTRUCTURE OF TOY & LIFESTYLE MERCHANDISE BUSINESS

- Significant cost reduction and clear customer focus
- Sales - Customer Based Business Team
- Product Group Team responsible for:
 - ▶ Overseas Principals
 - ▶ Marketing & Licensing
 - ▶ Product Development (brands and intellectual property)
- 3 key new recruits driving results

First 100 days

IDENTIFY FINANCE & ADMINISTRATION IMPROVEMENTS

- Key focus on delivering Executive Information System



- Harmonising Trading Terms across the business



- Understand our customer, driving product profitability



2009 Results - YTD

TRADING UPDATE

- Trading conditions challenging
- EBITA loss for the six months to 30th June

2009 Results - YTD

TRADING UPDATE

- Results impacted by:
 - ▶ Restructuring initiative charges
 - ▶ Significantly lower profit from Judius
 - ▶ Discontinuing business units' negative contributions
 - ▶ Australian dollar volatility
 - ▶ Lower margins

2009 Results - YTD

ASSET IMPAIRMENT

- Discontinuing businesses will result in write-downs in goodwill and asset impairment
- Write-downs and charges are expected to be approximately \$13 million
- Write-downs and charges will result in recording a net loss for the 12 months ending 31 December 2009

2009 Objectives – Positioning for the future

REDUCE DEBT

- Capital Raising
- Sale of non-core assets

2009 Objectives – Positioning for the future

TAKING STEPS TOWARDS TURNAROUND

- Reposition the business model
- Simplify the business
- Create a clear focus going into 2010

Create a Clear focus for 2010 - example

PLANNING IMPROVEMENTS

- Planning Transformation Project (commenced February 2009)
 - ▶ All new technology using Oracle base
 - ▶ 12 month roll out strategy

Create a Clear focus for 2010 - example

PLANNING IMPROVEMENTS

- Benefits:
 - ▶ Higher levels of Customer Service
 - ▶ Reduced clearing of low margin inventory
 - ▶ Reduction in mark downs and returns
 - ▶ Reduction in overall working capital

Create a Clear focus for 2010 - example

WAREHOUSE CONSOLIDATION

- 2nd Half 2009 – reduce warehouses from 5 to 3
- On track to operate only 2 Australian warehouses end 2010
- Reduction in facility and management expenses while increasing productivity

Create a Clear focus for 2010 - example

INVENTORY TRENDS

- Total inventory value 2009 YTD improved on same time last year
- Last 18mths increase in stock turns on total business more than 10%
- Toy & Sporting stock turns improved by more than 50% over the last 18mths

Identify Future Growth Platforms

BRING BACK INNOVATION AND ENTREPRENEURSHIP

- Nir Pizmony (founder of JNH) offers the Company a wealth of entrepreneurial experience and passion

Identify Future Growth Platforms

NSR

- Global opportunities
- Manufacturing capability
- Intellectual property
- Innovative and creative product design

Identify Future Growth Platforms

INTERACTIVE

- Our Interactive division is now a leading independent distributor of console and PC video games – with market share growth so rapid, they were awarded Fastest Growing Value Distributor by GFK within just two years

Toy & Lifestyle Merchandise

We are hot!

- Australia's No. 1 Toy Distributor YTD
- Funtastic leads Action Figures with a 36% market share
 - ▶ Driven by Ben 10, No. 1 Boys Brand
- No. 1 Position in Outdoor and Sporting, resulting in 13.5% market leadership & 170% brand growth
 - Led by Razor



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Toy & Lifestyle Merchandise

We are hot!

- Significant growth in Pre-school
 - ▶ Little Tikes: 190% growth
 - ▶ Leapfrog: 21% growth
- New brands increasing category worth by over \$3m at retail. These include:
 - ▶ Roary the Racing Car
 - ▶ Yo Gabba Gabba
 - ▶ Winnie the Pooh



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 - ▶ Driven by Baby Born
- No. 1 Youth Electronics with 32% market share
 - ▶ Driven by Tamagotchi



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Toy & Lifestyle Merchandise

We are hot!

- Strategically held off on 9 new launches until after July Catalogues
 - ▶ Gormiti
 - ▶ GX
 - ▶ iCarly
 - ▶ Leapfrog Tag Junior
 - ▶ G Force
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Madman – What's hot?



"Classic 80s toons" campaign launched on the back of Transformers awareness and includes the original Transformers series, He-Man, Voltron, and many other hits of the 80s has just hit stores in large numbers



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Love the Beast

Eric Bana's own film "Love the Beast" set to be a huge result for July release



MADMAN

What's Performing

SBS Home entertainment label performing well above expectations, with titles such as Skins, Food Safari and Swift & Shift Couriers.



Ben 10

Ben 10 continues to dominate kids DVD charts, occupying half of the top 10 positions in total childrens' over the past 12 months



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Ben 10: Alien Swarm

Hot new live action film release
December "Alien Swarm"
(it is direct to TV and DVD,
not in cinemas)



MADMAN



Bakugan, the Iron Man Animated Series, Dragon Ball Z, Huntik, and others are also hot performers in our boys action DVD category, cementing Madman as the #1 player in this space.



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Star Wars Robot Chicken

Adult Swim's hilarious parody series



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New DVDs from Comedians
Danny Bhoj and Tim Minchin

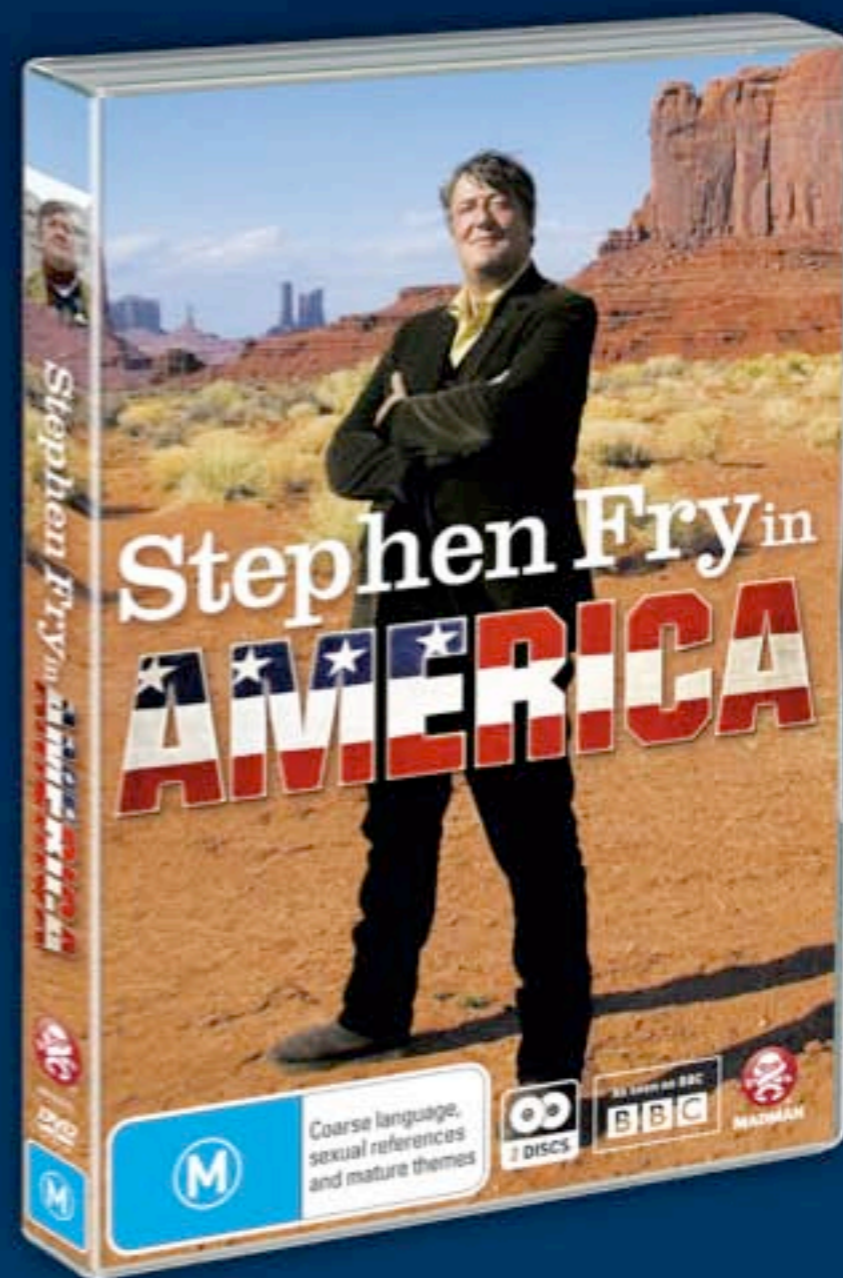


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Stephen Fry in America

TV series



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A stunning upcoming array of Australian films such as the acclaimed Samson and Delilah, Balibo and more.



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Global Opportunities

Noddy

Global Master Toy Licensee of this
heritage Preschool brand

Distribution secured across Europe
and UK



Scuttlebug

Funtastic owned Intellectual Property

International distribution secured in the UK,
France, USA, Canada, Latin America

Future brand developments to be exhibited
at the International Nursery Fair,
Germany in September 2009



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NEW BUSINESS MODEL
INTELLECTUAL PROPERTY AND PRODUCT DEVELOPMENT
GLOBAL OPPORTUNITIES