21 June 2012

Funtastic Limited announces capital raising of up to A$24.6m

- Capital raising proceeds will substantially reduce bank debt and improve gearing ratios
- Provides capital to invest in key brands and drive organic growth
- Confirmation of earnings guidance for FY12 of $20.1m EBITDA and $10.4m NPAT
- Guidance for FY13 EBITDA of $23m-25m
- Board intends to recommence payment of fully franked dividends in FY13

Funtastic Limited ("**Funtastic**" or the "**Company**") today announces a capital raising of up to $24.6m for new Funtastic ordinary shares ("**New Share**") at an offer price of $0.145 per New Share ("**Offer Price**") to existing and new shareholders (the "**Offer**") consisting of a:

- $6.8m placement to institutional and sophisticated investors ("**Institutional Placement**");
- 1-for-3 Accelerated Non-Renounceable Entitlement Issue to institutional and sophisticated investors of approximately $13.4m ("**Institutional Entitlement Offer**"), together with an institutional shortfall bookbuild; and
- 1-for-3 Non-Renounceable Entitlement Issue to retail shareholders ("**Retail Entitlement Offer**") to raise up to approximately $4.4m

The Offer Price of $0.145 per New Share represents a discount of:

- 9.4% to the closing price of Funtastic on the ASX on 20 June 2012
- 11.0% to 10 day VWAP
- 14.7% to 30 day VWAP
- 6.6% to the Theoretical Ex-Rights Price (TERP)[1]

Bell Potter Securities Limited is acting as sole Lead Manager to the Offer.

Rationale for the Offer

While Funtastic has delivered strong operational improvements in the past year, shareholder returns are currently constrained by the Company's high levels of debt. The Company believes that the capital raising will give its shareholders greater opportunity for enhanced returns through:

- increased flexibility to invest in key brands and drive organic growth;
- increased liquidity in the Company via the introduction of new institutional and sophisticated investors;
- the recommencement of fully franked dividends; and
- the potential for more attractive lending terms on its remaining bank facilities.

Managing Director Stewart Downs stated that "whilst our forecast growth is not dependent on an Australian retail turnaround, the Board felt that it was prudent to strengthen the company's balance sheet both to insulate the business from further economic shocks as well as to ensure that we are appropriately

[1] Theoretical Ex-Rights Price (TERP) is the theoretical price at which Funtastic shares should trade immediately after the ex-date for the Offer, assuming 100% take-up of the Offer. TERP is a theoretical calculation only: the actual price at which Funtastic's shares will trade immediately after the ex-date will depend on many factors and may not be equal to TERP. TERP is calculated with reference to Funtastic's closing share price on Wednesday 20 June 2012

funded to enable the business to fully capitalise on the opportunities we have". He went on to say that "the Board believes that the structure of the capital raising provides the fairest outcome for all shareholders".

Use of Funds

The proceeds from the Offer (less associated costs) will be used to:

- immediately repay debt of $15m to strengthen the balance sheet which significantly reduces gearing and increases interest coverage; and
- provide working capital to invest in the Company's brand portfolio, drive organic growth both domestically and internationally and pay the costs of the Offer.

The Company intends to reduce debt further in FY13 and FY14 and has agreed scheduled debt repayments by 31 January 2013 and 31 July 2013.

Reaffirmation of FY12 guidance and new guidance for FY13

On 1 May 2012 Funtastic released market guidance to the ASX that it expected EBITDA of $20.1m and NPAT of $10.4m for the financial year ending 31 July 2012 ("FY12"). Funtastic reaffirms this guidance for FY12 and confirms the business continues to perform strongly.

In addition to reaffirming guidance for FY12, the Company is pleased to provide guidance for the financial year ending 31 July 2013 ("FY13") of $23-25m EBITDA .

The FY13 forecast growth is driven by overall sales growth in the range of 5%-8% and operational improvements already achieved including:

- a substantially reduced fixed cost base;
- a more focused portfolio with emphasis on strong everyday brands; and
- full year contributions from Pillow Pets and Lego in Australia and international markets.

The FY13 guidance is based on assumptions including:

- no improvement to current Australian retail conditions which are expected to remain challenging for the foreseeable future;
- no major change in the domestic customer landscape; and;
- reliance on the existing foreign exchange hedging policy.

Stewart Downs commented that "Funtastic is enjoying a strong position today as a direct result of the numerous initiatives the management team have executed over the last three years". He singled out the company's shift from a promotionally driven business to one which is focussed on providing a core range as one of the main drivers of its success, noting that "the increased predictability this affords us improves our ability to forecast and enables us to concentrate on brands, innovation and value which our research shows are important to consumers".

Fully franked dividend for FY13

On successful completion of the Offer the Company Board proposes to recommence the payment of a fully franked dividend in FY13. The capital raising and the strong forward earnings outlook give the Company the capacity to recommence payment of dividends to its shareholders.

The Company has received approval from its lender to pay an interim dividend for the half year ended 31 January 2013 conditional on the Company complying with bank conditions including repayment of $20m of debt by 31 January 2013 and achieving a ratio of gross debt/EBITDA of less than 2.5 times.

The Company expects to satisfy these conditions through successful completion of the Offer and future cashflows. On that basis, the Board are proposing to adopt a dividend policy of 50% of NPAT in dividends for FY13 commencing with a dividend for the half year ending 31 January 2013.

The Company currently has a dividend franking credit balance of approximately $21.2m and would expect dividends to be fully franked. In addition, the Company has accumulated tax losses of approximately $60.2m.

Details of the Entitlement Offer

The Entitlement Offer is non-renounceable and comprises an accelerated Institutional Entitlement Offer and a Retail Entitlement Offer. New Shares issued under the Entitlement Offer will rank equally with existing Funtastic ordinary shares in all respects.

Key dates of the Entitlement Offer are provided at the end of this announcement.

Institutional Entitlement Offer

Eligible institutional shareholders will be invited to participate in the Institutional Entitlement Offer which will take place from Thursday, 21 June 2012 to Friday, 22 June 2012.

New Shares taken up under the Institutional Entitlement Offer and the institutional shortfall bookbuild are expected to settle on Friday 29 June 2012 and commence trading on Monday 2 July 2012.

Retail Entitlement Offer

Eligible retail shareholders will be invited to participate in the Retail Entitlement Offer at the same Offer Price and offer ratio as the Institutional Entitlement Offer. The Retail Entitlement Offer will open on Friday 29 June 2012 and close at 5:00pm (Melbourne time) on Wednesday 25 July 2012.

The Entitlements under the Retail Entitlement Offer may only be exercised by eligible retail shareholders, being persons who are registered holders of Funtastic ordinary shares at 7:00pm (Melbourne time) on Tuesday, 26 June 2012 and have a registered address in Australia or New Zealand.

Shareholder enquiries

Eligible retail shareholders will be sent a Retail Offer Booklet on or around 29 June 2012 and a retail offer document will also be lodged with the ASX on or around 29 June 2012. In addition, further information on the transaction can be found in the Capital Raising Presentation released by Funtastic on the ASX today. This presentation and other announcements can also be downloaded from the Funtastic website at www.funtastic.com.au

Timetable

Event	Date
Trading halt, Institutional Placement and Institutional Entitlement Offer opens	Thursday 21 June, 2012
Institutional shortfall and Institutional Placement bookbuild	Thursday 21 June, 2012
Funtastic shares recommence trading on ASX	Monday 25 June, 2012
Record date for eligibility in the Retail Entitlement Offer	7:00pm Tuesday 26 June, 2012
Retail Offer Booklet to be dispatched to eligible retail shareholders	Friday 29 June, 2012
Retail Entitlement Offer opens	Friday 29 June, 2012
Settlement and allotment of New Shares under Institutional Entitlement Offer and Institutional Placement	Friday 29 June, 2012
Trading of New Shares issued under Institutional Entitlement Offer and Institutional Placement	Monday 2 July, 2012
Retail Entitlement Offer closes	5:00pm Wednesday 25 July, 2012
Retail shortfall bookbuild (if required)	Monday 30 July, 2012
Settlement of Retail Entitlement Offer	Tuesday 31 July, 2012
Allotment of New Shares under Retail Entitlement Offer	Wednesday 1 August, 2012
Trading of New Share issued under the Retail Entitlement Offer	Thursday 2 August, 2012

Note: The above timetable is indicative only and subject to change. All references to time are to Melbourne time. The Company reserves the right, subject to the *Corporations Act 2001* (Cth) and the ASX Listing Rules, to amend the indicative timetable set out above or to withdraw the Offer at any time.

About Funtastic

Funtastic is a publicly listed Australian company. With our head office in Melbourne and offices in Hong Kong and China, we supply retailers and customers across the country, and the world, with an array of leading products for kids of all ages.

For more information on Funtastic visit the web site at www.funtastic.com.au and for comment contact Stewart Downs (CEO) on 03 8531 0002.

Important Information

This announcement should be read in conjunction with the Capital Raising Presentation lodged with ASX today, including all key risks.

This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States or in any other jurisdiction in which such an offer would be illegal. Neither the New Shares nor the entitlements have been, or will be, registered under the U.S. Securities Act of 1933 (the "US Securities Act") or the securities law of any state or other jurisdiction of the United States. Accordingly, the entitlements, and the New Shares may not be offered or sold, directly or indirectly, in the United States, unless they have been registered under the U.S Securities Act, or are offered and sold in a transaction exempt from, or not subject to, the registration requirements of the U.S. Securities Act and any other applicable state securities laws.