



25 June 2012

Dear Shareholder

Funtastic Limited
Non-renounceable Accelerated Rights Issue

On 21 June 2012 Funtastic Limited ACN 063 886 199 (**Funtastic** or **Company**) announced a proposed capital raising of up to approximately \$24.6 million (before expenses) by way of a placement of approximately 47 million Funtastic shares to institutional and sophisticated investors (**Placement**) and a 1 for 3 non-renounceable accelerated pro-rata entitlement issue of up to approximately 122 million new Funtastic shares at an issue price of \$0.145 per share (**New Share**) (**Rights Issue**).

The Rights Issue has 2 components:

- an institutional entitlement offer, where offers have been made to eligible institutional shareholders for them to apply for their pro-rata entitlement (**Institutional Entitlement Offer**); and
- a retail entitlement offer, where an offer will be made to eligible retail shareholders for them to apply for their pro-rata entitlement (**Retail Entitlement Offer**).

In addition to being able to apply for New Shares under the Retail Entitlement Offer, eligible retail shareholders (described below) who take up their full entitlement will also be able to apply for New Shares that are not subscribed for under the Retail Entitlement Offer (**Additional Shares**). Additional Shares will be issued to eligible retail shareholders at the discretion of the directors of the Company.

Purpose of the Placement and Rights Issue

Funtastic will use the proceeds from the Placement and Rights Issue to:

- repay \$15 million of debt on the Company's balance sheet, in order to reduce gearing and increase interest coverage; and
- provide working capital to invest in the Company's brand portfolio, drive organic growth both domestically and overseas and pay the costs of the Placement and Rights Issue.

Retail Entitlement Offer and Retail Offer Booklet

The Retail Entitlement Offer will be made to eligible retail shareholders without disclosure under Part 6D.2 of the *Corporations Act 2001* (Cth) (**Corporations Act**) pursuant to section 708AA of the Corporations Act, as modified by ASIC Class Order [08/35].

Funtastic will dispatch a copy of the Retail Offer Booklet and an Entitlement and Acceptance Form to eligible retail shareholders in accordance with the timetable below. Once available, the Retail Offer Booklet will also be lodged on the ASX Company Announcements Platform which is available on the ASX website at www.asx.com.au (ASX code: FUN).

The Rights Issue is non-renounceable, which means that entitlements to participate in the Rights Issue cannot be sold. Therefore, to the extent that an eligible retail shareholder does not take up all or part of their entitlement under the Retail Entitlement Offer, that entitlement (or the relevant proportion not taken up) will lapse and the New Shares the subject of that entitlement (or the relevant proportion not taken up), as well as those New Shares which would have been offered to ineligible retail shareholders if they had been eligible to participate in the Retail Entitlement Offer, will constitute Additional Shares that may be allotted at the discretion of the directors of the Company.

Indicative timetable for the Retail Entitlement Offer

Summary of key Retail Entitlement Offer dates*	
Trading halt	Thursday, 21 June 2012
Announcement of the Retail Entitlement Offer	Thursday, 21 June 2012
Securities resume trading on an "ex"-entitlement basis	Monday, 25 June 2012
Record Date to determine entitlement to New Shares	7.00pm (Melbourne Time) on Tuesday, 26 June 2012
Dispatch of Retail Offer Booklet and Entitlement and Acceptance Forms	Friday, 29 June 2012
Closing Date	5.00pm (Melbourne Time) on Wednesday, 25 July 2012
Allotment of New Shares	Wednesday, 1 August 2012
Trading of New Shares expected to commence on ASX	Thursday, 2 August 2012
Holding statements expected to be despatched to shareholders	Friday, 3 August 2012

* These dates are indicative only and are subject to change. Funtastic reserves the right in consultation with the Lead Manager, subject to the Corporations Act and the Listing Rules, to amend this indicative timetable. In particular, Funtastic reserves the right, to extend the Closing Date or to withdraw the Rights Issue without prior notice. Any extension of the Closing Date will have a consequential effect on the date for the allotment of New Shares.

Eligible Retail Shareholders

A person will be eligible to participate in the Retail Entitlement Offer if:

- the person was a registered holder of Funtastic shares at 7:00pm (Melbourne time) on Tuesday, 26 June 2012;
- the person's registered address is in Australia or New Zealand; and
- the person was not invited to participate (other than as nominee, in respect of other underlying holdings) under the Institutional Entitlement Offer, and were not treated as ineligible institutional shareholders under the Institutional Entitlement Offer.

Fractional entitlements will be rounded up to the nearest whole New Share.

To the extent that a person holds Funtastic shares on behalf of another person resident outside Australia or New Zealand, it is that person's responsibility to ensure that any acceptance complies with all applicable foreign laws.

Ineligible Retail Shareholders

In accordance with ASX Listing Rule 7.7, the Company has determined that it is not practical for retail holders of Funtastic shares with registered addresses in jurisdictions outside of Australia and New Zealand to participate in the Retail Entitlement Offer having regard to the number and value of New Shares they would be offered and the costs of complying with the regulatory requirements in those places.

Accordingly, you will not be eligible to subscribe for New Shares or any Additional Shares under the Retail Entitlement Offer and will not be sent a copy of the Retail Offer Booklet or a personalised Entitlement and Acceptance Form.

As noted above, a copy of the Retail Offer Booklet will be lodged with ASX and will be available on the ASX website at www.asx.com.au (ASX code: FUN). Full details of the terms and conditions of the Retail Entitlement Offer are contained in the Retail Offer Booklet.

This letter has been sent by Funtastic to inform you of the Rights Issue. You are not required to do anything in response to this letter.

If you have any questions relating to the Rights Issue, please contact Funtastic's share registry, Boardroom Pty Ltd, on +61 2 9290 9600.

Yours sincerely



Stewart Downs
Managing Director & Chief Executive Officer

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