

# Notice of Annual General Meeting and Explanatory Notes

Funtastic Limited ACN 063 886 199

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Date: Tuesday 18 December 2012

Time: 10:00am

Place: Funtastic Head Office

Level 2, Tower 2, Chadstone Place

1341 Dandenong Road, Chadstone Victoria

## Important notice

In this document you will find:

1. Notice of Annual General Meeting.
2. Proxy Form.
3. Explanatory Notes containing an explanation of, and information about, the resolutions to be put to the meeting

The Explanatory Notes contain an explanation of, and information about, the matters to be considered at the Annual General Meeting of Funtastic Limited. The Explanatory Notes are given to Funtastic Limited's shareholders to help them determine how to vote on the resolutions set out in the accompanying Notice of Meeting.

Shareholders should read this document in full.

This document is dated 12/11/2012.

# Notice of Annual General Meeting

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Notice is given that the thirteenth annual general meeting of shareholders of Funtastic Limited (ACN 063 886 199) (**Funtastic** or **the Company**) will be held on Tuesday 18 December 2012, at Funtastic Head Office, Level 2, Tower 2, Chadstone Place, 1341 Dandenong Road, Chadstone, Victoria, commencing at 10:00am (Melbourne time).

## 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 ending 31 July 2012.

### 2. Remuneration Report

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

'In accordance with Section 250R of the Corporations Act, the Company adopts the Remuneration Report as set out in the Directors' report on pages 21 to 29 of the 2012 Annual Report, for the year ending 31 July 2012.'

#### **Note:**

The vote on this resolution is advisory only and does not bind the Directors of the Company.

#### **Voting Exclusion Statement:**

- (a) The Company's key management personnel and their closely related parties must not cast a vote on the Remuneration Report unless the vote is cast as a proxy on behalf of a person who is entitled to vote on this resolution and either:
  - (i) the Proxy Form specifies the way the proxy is to vote on this resolution; or
  - (ii) the proxy is the Chairman and the appointment of the Chairman as proxy:
    - (i) does not specify the way the proxy is to vote on this resolution; and
    - (ii) expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the key management personnel of the Company.

- (b) The Chairman intends to vote all undirected proxies (where he has been appropriately authorised) in favour of this resolution. If you wish to vote against this resolution or you wish to abstain from voting on this resolution you should mark the relevant box in the attached Proxy Form. Please see the directions on the Proxy Form relating to authorisation of the Chairman to vote undirected proxies.

### 3. Re-election of Director, Mr Craig Mathieson

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

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

The Chairman intends to vote all undirected proxies in favour of this resolution.

### 4. Re-election of Director, Mr Nir Pizmony

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

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

The Chairman intends to vote all undirected proxies in favour of this resolution.

## Special Business

### 5. Approval of Prior Issue of Shares in relation to the acquisition of the Pillow Pets International Business

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

'That, for the purposes of ASX Listing Rule 7.4, approval be given in respect of the issue of 6,959,137 fully paid ordinary shares in the Company on 23 January 2012 on the terms and conditions as set out in the Explanatory Notes.'

#### **Voting Exclusion Statement:**

Funtastic will disregard any votes cast on this resolution by any person who participated in the issue the subject of this resolution and any of their associates. 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 direction on the Proxy Form to vote as the proxy decides.

The Chairman intends to vote all undirected proxies in favour of this resolution.

## 6. Approval of Prior Issue of Shares under Placement

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

‘That, for the purposes of ASX Listing Rule 7.4, approval be given in respect of the issue of 47,190,515 fully paid ordinary shares in the Company on 29 June 2012 on the terms and conditions as set out in the Explanatory Notes.’

### **Voting Exclusion Statement:**

Funtastic will disregard any votes cast on this resolution by any person who participated in the issue the subject of this resolution and any of their associates. 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.

The Chairman intends to vote all undirected proxies in favour of this resolution.

## 7. Approval of Issue of Options to Director – Mr Nir Pizmony

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

‘That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Directors to issue up to 6,333,333 options to Mr Nir Pizmony or his nominee in accordance with the terms and conditions set out in the Explanatory Notes.’

### **Voting Exclusion Statement:**

Funtastic will disregard any votes cast on this resolution by Mr Nir Pizmony or any of his associates. 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 direction on the Proxy Form to vote as the proxy decides.

Further, the Company’s key management personnel and their closely related parties must not cast a vote on this resolution unless the vote is cast as a proxy on behalf of a person who is entitled to vote on the resolution and either:

- (c) the Proxy Form specifies the way the proxy is to vote on this resolution; or
- (d) the proxy is the Chairman and the appointment of the Chairman as proxy:
  - (i) does not specify the way the proxy is to vote on this resolution; and
  - (ii) expressly authorises the Chairman to exercise the proxy even if this resolution is connected directly or indirectly with the remuneration of a member of the key management personnel of the Company.

The Chairman intends to vote all undirected proxies (where he has been appropriately authorised) in favour of the resolution in this Item. If you wish to vote against this resolution or you wish to abstain from voting on this resolution you should mark the relevant box in the attached Proxy Form. Please see the directions on the Proxy Form relating to authorisation of the Chairman to vote undirected proxies.

## 8. Approval of Funtastic Employee Share Loan Plan

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

‘That, for the purposes of section 260C(4) of the Corporations Act and Exception 9 of ASX Listing Rule 7.2, and for all other purposes, the Company approves the “Funtastic Employee Share Loan Plan” (**ESLP**) and the issue of securities under the ESLP as an exception to ASX Listing Rule 7.1’

### Voting Exclusion Statement:

Funtastic will disregard any votes cast on this resolution by any Director eligible to participate in the ESLP as well as any votes cast by any associate of any such Director. 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 the direction on the Proxy Form to vote as the proxy decides.

The Chairman intends to vote all undirected proxies in favour of this resolution.

## 9. Approval of Issue of Shares to Director Under Employee Share Loan Plan – Mr Paul Wiegard

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

‘That, for the purposes of ASX Listing Rule 10.12 and 10.14 and for all other purposes, approval is given for the Company to issue up to 500,000 fully paid ordinary shares (**Shares**) to Mr Paul Wiegard or his nominee pursuant to the ESLP in accordance with the terms and conditions of the ESLP, a summary of which is set out in the Explanatory Notes.’

## 10. Approval of Issue of Shares to Director Under Employee Share Loan Plan – Mr Nir Pizmony

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

‘That, for the purposes of ASX Listing Rule 10.12 and 10.14 and for all other purposes, approval is given for the Company to issue up to 500,000 Shares to Mr Nir Pizmony or his nominee pursuant to the ESLP in accordance with the terms and conditions of the ESLP, a summary of which is set out in the

## 11. Approval of Issue of Shares to Director Under Employee Share Loan Plan – Mr Stewart Downs

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

'That, for the purposes of ASX Listing Rule 10.12 and 10.14 and for all other purposes, approval is given for the Company to issue up to 500,000 Shares to Mr Stewart Downs or his nominee pursuant to the ESLP in accordance with the terms and conditions of the ESLP, a summary of which is set out in the Explanatory Notes.'

### **Voting Exclusion Statement for resolutions in Items 9, 10 and 11:**

Funtastic will disregard any votes cast on the resolutions in Items 9, 10 and 11 by each executive Director of Funtastic and any associate of an executive Director of Funtastic. 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 direction on the Proxy Form to vote as the proxy decides.

Further, the Company's key management personnel and their closely related parties must not cast a vote on the resolutions in Items 9, 10 and 11 unless the vote is cast as a proxy on behalf of a person who is entitled to vote on the resolutions and either:

- (c) the Proxy Form specifies the way the proxy is to vote on the resolutions; or
- (d) the proxy is the Chairman and the appointment of the Chairman as proxy:
  - (i) does not specify the way the proxy is to vote on the resolutions; and
  - (ii) expressly authorises the Chairman to exercise the proxy even if the resolutions are connected directly or indirectly with the remuneration of a member of the key management personnel of the Company.

The Chairman intends to vote all undirected proxies (where he has been appropriately authorised) in favour of the resolutions in Items 9, 10 and 11. If you wish to vote against these resolutions or you wish to abstain from voting on these resolutions you should mark the relevant box in the attached Proxy Form. Please see the directions on the Proxy Form relating to authorisation of the Chairman to vote undirected proxies.

## 12. Approval of 10% Placement Capacity

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

'That, for the purpose of ASX Listing Rule 7.1A and for all other purposes, approval is given for the issue of ordinary equity securities in the Company totalling up to 10% of the Shares on issue (at that time), calculated in

accordance with the formula prescribed in ASX Listing Rule 7.1A.2 and on the terms and conditions set out in the Explanatory Notes.'

**Voting Exclusion Statement:**

The Company will disregard any votes cast on this resolution by any person who may participate in the issue of equity securities under this resolution and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, and any associates of those persons. However, the Company need not disregard a vote if:

- (a) it is cast by a person as a 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.

The Chairman intends to vote all undirected proxies in favour of this resolution.

### 13. Other business

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

## Voting

**Entitlement to vote**

The Directors have decided that for the purpose of determining entitlements to attend and vote at the Annual General Meeting, Shares will be taken to be held by the persons who are the registered holders at 10.00am (Melbourne time) on Sunday 16 December 2012. Accordingly, Share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

**Proxies**

1. A shareholder who is entitled to attend and vote at the meeting may appoint up to two proxies to attend and vote on behalf of that shareholder. If you require an additional Proxy Form, please contact Boardroom Pty Limited at the address below.
2. If a shareholder appoints two proxies, the appointment of the proxies may specify the proportion or the number of that shareholder's votes that each proxy may exercise. If the appointment does not so specify, each proxy may exercise half of the votes. Fractions of votes will be disregarded.
3. Where a shareholder appoints more than one proxy, neither proxy is entitled to vote on a show of hands.
4. A proxy need not be a shareholder of Funtastic.
5. To be effective, Funtastic must receive the completed Proxy Form and, if the form is signed by the shareholder's attorney, the authority under which the Proxy Form is signed (or a certified copy of the authority) by no later than 10.00am (Melbourne time) on Sunday 16 December 2012.
6. Proxies may be lodged with the Company's share registry, Boardroom Pty Limited using the reply paid envelope provided or:

**BY MAIL -** Share Registry – Boardroom Pty Limited, GPO Box 3993,  
Sydney NSW 2001 Australia

**BY FAX -** +61 2 9290 9655

**IN PERSON -** Share Registry – Boardroom Pty Limited,  
Level 7, 207 Kent Street, Sydney NSW 2000 Australia

**Vote online at:** [www.boardroomlimited.com.au/vote/funtasticagm2012](http://www.boardroomlimited.com.au/vote/funtasticagm2012)

7. Proxies given by corporate shareholders must be executed in accordance with their constitutions or signed by a duly authorised officer or attorney.
8. A proxy may decide whether to vote on any motion except where the proxy is required by law or the Constitution to vote, or abstain from voting, in their capacity as proxy. If a proxy is directed how to vote on an item of business the proxy may vote on that item only in accordance with the direction. If a proxy is not directed how to vote on an item of business the proxy may vote as he or she thinks fit.
9. If a shareholder appoints the Chairman of the meeting as the shareholder's proxy using the attached Proxy Form and does not specify how the Chairman is to vote on an item of business, the Chairman will be authorised to vote as he decides on all resolutions. The Chairman intends to vote all such proxies in favour of all resolutions. However, the Chairman will not vote such proxies to the extent that the Shareholder is restricted by law from voting on any resolutions.
10. If a shareholder appoints a body corporate as a proxy, that body corporate will need to ensure that it appoints an individual as its corporate representative to exercise its powers at the meeting and provides satisfactory evidence of the appointment of its corporate representative.
11. Please refer to other notes appearing on the enclosed Proxy Form.

## Corporate representatives

A shareholder that is a body corporate may appoint an individual to act as its representative at the meeting. Unless otherwise specified in the appointment, the representative may exercise all or any of the powers that the body corporate may exercise at the meeting or in voting on a resolution.

Appointments may be lodged in advance of the meeting at Funtastic's share registry (details above), or handed in at the meeting when registering.

The accompanying Explanatory Notes form part of this Notice of Meeting.



By order of the Board

Date 12 November 2012

A handwritten signature in blue ink, appearing to read 'J. Cody', is centered within a light gray rectangular box.

Signed

Name James Cody  
Company Secretary

# Explanatory Notes

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These Explanatory Notes are intended to provide shareholders of Funtastic with information to assess the merits of the proposed resolutions in the accompanying Notice of Meeting.

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

## Ordinary Business

### 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 ending 31 July 2012.

The Directors unanimously recommend that shareholders vote in favour of adopting the financial statements and reports.

### 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 29 of the 2012 Annual Report. It is also available from the Company's website ([www.funtastic.com.au](http://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 Directors unanimously recommend that shareholders vote in favour of adopting the Remuneration Report.

### 3. Re-election of Director, Craig Mathieson

Craig Mathieson was elected as a Director in August 2009. In accordance with Rule 35(c) of the Constitution, Mr Mathieson offers himself for re-election as a Director.

Craig Mathieson is CEO of The Mathieson Group. He was MD of DMS Glass from 2001 to 2007. He has a banking and commercial background gained while working with the Business Banking division of ANZ Bank and the Property Finance division of St George Bank.

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

### 4. Re-election of Director, Nir Pizmony

Nir Pizmony was elected as a Director in August 2009. In accordance with Rule 35(c) of the Constitution, Mr Pizmony offers himself for re-election as a Director.

Mr Pizmony has over 25 years' experience in consumer products. He has founded, developed and subsequently sold two successful toy companies. His knowledge and reputation in the toy industry is well recognised both in Australia and around the world.

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

### 5. Approval of Prior Issue of Shares in relation to the acquisition of the Pillow Pets International Business and the Placement

#### 5.1 Background

On 24 January 2012, the Company announced the completion of its acquisition of the Pillow Pets business (**Pillow Pets Assets**). The consideration for the Pillow Pets Assets included the issue of 6,959,137 fully paid ordinary shares in the Company (**Shares**) to the vendor of the Pillow Pets Assets, CJ Products, LLC (**Pillow Pets Shares**).

On 1 August 2012, the Company announced the completion of a placement (**Placement**) of 47,190,515 Shares to institutional and sophisticated investors under a capital raising (**Placement Shares**).

The issue of the Pillow Pets Shares and Placement Shares did not breach ASX Listing Rule 7.1.

Approval is now sought pursuant to ASX Listing Rule 7.4 to the issue of the Pillow Pets Shares and Placement Shares. Such approval will enable the Company to refresh its ability to issue further securities in the future without seeking shareholder approval in accordance with ASX Listing Rule 7.1.

#### 5.2 ASX Listing Rule 7.1

Subject to a number of exceptions, ASX Listing Rule 7.1 limits the number of securities that a company may issue without shareholder approval in any 12 month period to 15% of its issued securities.

ASX Listing Rule 7.4 allows for shareholders to subsequently approve an issue of securities, provided the issue was not in breach of ASX Listing Rule 7.1. Shareholders are being asked to approve the issue of the Pillow Pets Shares and Placement Shares in accordance with ASX Listing Rule 7.4.

If the Pillow Pets Shares and Placement Shares are treated as having been made with shareholder approval pursuant to ASX Listing Rule 7.4, the Company's capacity to issue further securities is restored. The Directors consider it prudent to retain the capacity to issue further securities and accordingly seek shareholders' approval to the issue of the Pillow Pets Shares and Placement Shares as set out in the resolutions contained in Items 5 and 6.

### **5.3 Summary of the issue of shares under the resolution in Item 5**

- (a) The number of Shares for which shareholder approval is being sought is 6,959,137.
- (b) The Pillow Pets Shares were issued for consideration of \$0.10 per Share.
- (c) From their date of issue, the Pillow Pets Shares ranked equally in all respects with the Company's existing Shares.
- (d) The Pillow Pets Shares were issued to the vendor of the Pillow Pets Assets.
- (e) The Pillow Pets Shares were issued as part consideration for the acquisition of the Pillow Pets Assets. No funds were raised from the issue.

### **5.4 Recommendation**

The Directors unanimously recommend that shareholders vote in favour of the resolution in Item 5.

## **6. Issue of Shares under Placement**

Please see sections 5.1 and 5.2 of these Explanatory Notes for background in relation to the Share issue the subject of the resolution in Item 6 and for a summary of ASX Listing Rules 7.1 and 7.4.

### **6.1 Summary of issue of Shares under the resolution in Item 6**

- (a) The number of Shares for which shareholder approval is being sought is 47,190,515.
- (b) The Placement Shares were issued for consideration of \$0.145 per Share.
- (c) From their date of issue, the Placement Shares ranked equally in all respects with the Company's existing Shares.
- (d) The Placement Shares were issued to selected institutional and sophisticated investors who satisfied the definitions contained in sections 708(8) and 708(11) of the Corporations Act.
- (e) The proceeds of the Placement Shares (in conjunction with the proceeds from the associated rights issue conducted concurrently with the Placement (**Rights Issue**)) were used to repay \$15 million of debt, to provide working capital to invest in the Company's brand portfolio and to pay the costs of the Placement and Rights Issue.

### **6.2 Recommendation**

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

## 7. Approval of Issue of Options to Mr Nir Pizmony

### 7.1 Background

ASX Listing Rule 10.11 requires shareholder approval to be obtained in respect of an issue of equity securities (which includes options) to a Director unless an exception applies.

The Company has agreed to issue, subject to obtaining shareholder approval, a total of 6,333,333 options to Mr Nir Pizmony, a Director of the Company, as an incentive component of his remuneration.

Accordingly, the resolution in Item 7 seeks shareholder approval under ASX Listing Rule 10.11 for the issue of up to a total of 6,333,333 options to Mr Nir Pizmony.

The Directors consider that shareholder approval pursuant to Chapter 2E of the Corporations Act is not required in connection with the issue of the options to Mr Nir Pizmony as the issue of the options forms part of his reasonable remuneration.

### 7.2 Information required under ASX Listing Rule 10.13

In accordance with ASX Listing Rule 10.13, the following information is provided to shareholders:

- (a) The options will be granted to Mr Nir Pizmony, a Director of Funtastic.
- (b) The maximum number of options that may be issued to Mr Nir Pizmony is 6,333,333.
- (c) The Company will issue the options within 1 month after the date of the Company's 2012 Annual General Meeting.
- (d) No monetary consideration is payable on issue of the options.
- (e) 1,333,333 options will be issued in the following terms (**August Options**):
  - (i) Each August Option is exercisable into one fully paid ordinary share in the capital of the Company.
  - (ii) The exercise price per August Option is \$0.135.
  - (iii) Each August Option may be exercised at any time between the date of issue and 10 August 2014.
- (f) 5,000,000 options will be issued in 2 tranches on the following terms (**December Option**):
  - (i) Each December Option is exercisable into one fully paid ordinary share in the capital of the Company.
  - (ii) 2,500,000 December Options will have an exercise price per option of \$0.10 (**Tranche 1 Options**) and 2,500,000 December Options will have an exercise price per option of \$0.135 (**Tranche 2 Options**).
  - (iii) If the Company enters into a distribution agreement with Spin Master Ltd and its wholly owned subsidiaries with a term of at least 2 years (**Spinmaster Distribution Agreement**) before 31 December 2012, then

the Tranche 1 Options will vest on 31 December 2012 and the Tranche 2 Options will vest on 31 December 2013.

- (iv) If the Company enters into the Spinmaster Distribution Agreement during the 2013 calendar year then the Tranche 1 Options and the Tranche 2 Options will vest on 31 December 2013.
  - (v) The December Options will vest only if Mr Nir Pizmony is an employee of the Company on the vesting date.
  - (vi) Tranche 1 Options and Tranche 2 Options will, if they vest, expire on 31 December 2014.
- (g) The funds raised from the exercise of the options, if any, will be used for working capital purposes.

If approval of the resolution in Item 7 is granted under ASX Listing Rule 10.11 shareholder approval is not required for the purposes of ASX Listing Rule 7.1. Accordingly, if shareholders approve the resolution in Item 7 for the purposes of ASX Listing Rule 10.11, the options and the issue of any Shares in the Company on the exercise of the options will not count towards the Company's 15% placement capacity under ASX Listing Rule 7.1.

### **7.3 Recommendation**

The Directors (other than Mr Nir Pizmony) recommend that shareholders vote in favour of the resolution in Item 7.

## **8. Approval of Funtastic Employee Share Loan Plan**

As detailed in section 5.2 above, ASX Listing Rule 7.1 limits the number of securities that a company may issue without shareholder approval in any 12 month period to 15% of its issued securities, subject to certain adjustments and permitted exceptions.

ASX Listing Rule 7.2 lists certain situations in which an issue of securities will not count towards a company's 15% placement capacity under ASX Listing Rule 7.1. One of these situations is an issue of securities under an employee incentive scheme if, within three years before the date of issue, shareholders approved the issue of securities under the scheme as an exception to ASX Listing Rule 7.1.

The ESLP is an employee incentive scheme for the purposes of ASX Listing Rule 7.2. Approval is being sought under the resolution in Item 8 for the purposes of exception 9 to ASX Listing Rule 7.2 in connection with the issue of Shares under the ESLP to any executive Director or employee of the Company or its related bodies corporate over the three year period from the date of the 2012 Annual General Meeting.

Shares issued under the ESLP will not count towards the Company's 15% placement capacity under ASX Listing Rule 7.1 if shareholders approve the resolution in Item 8. This will provide the Company with the ability to raise further funds at any time by issuing up to the full 15% of its issued share capital (subject to the approval of the resolutions in Items 5, 6 and 7) without further shareholder approval.

The ESLP gives all Funtastic employees and executive Directors who are eligible to participate the opportunity to become shareholders in Funtastic. Non-executive Directors will not be eligible to participate in the ELSP. The purpose of

the ESLP is to issue Shares in Funtastic to eligible employees and executive Directors as an additional incentive and to align their interests with the interests of shareholders.

In order to fund the acquisition of the Shares issued under the ESLP Funtastic will offer eligible employees and executive Directors an interest-free loan (**Loan**) to be used to pay the subscription price for the Shares issued under the ESLP.

The key terms of the Loan to be provided to each eligible employee are as follows:

- (a) The amount of the Loan will be the price per Share multiplied by the number of Shares to be issued to the eligible employee; and
- (b) The Loan will be interest-free and on a limited recourse basis.

## 8.1 Key terms of the ESLP

The key terms of the ESLP are as follows:

- (a) The Board may, in its absolute discretion, determine the criteria that will apply for eligibility to participate in the Plan and the terms and conditions that will apply to an offer of Shares under the ESLP (**Offer**). These terms and conditions may include such vesting conditions that the Board may determine in its absolute discretion.
- (b) The issue price for Shares under the ESLP will be the volume weighted average price of ordinary shares in the Company over the five trading days (excluding special crossings and overnight sales) following the announcement of the Company's most recent full year financial results or such other price as may be determined by the Board (**Issue Price**).
- (c) If an eligible employee accepts an Offer (**Participant**), the Company must:
  - (i) provide a Loan of an amount not greater than the amount equal to the number of Shares specified in the Offer multiplied by the Issue Price to enable the Participant to acquire the Shares the subject of the Offer; and
  - (ii) issue the number of Shares accepted by the Participant.
- (d) The Company may impose such restrictions on a Participant from selling or otherwise disposing of all or any Shares issued under the ESLP as the Board, in its absolute discretion thinks fit, provided that such restrictions are specified in the Offer made to the Participant.
- (e) Dividends paid by the Company, less the estimated tax payable by the Participant in respect of such Shares, will be used to pay down the Loan.
- (f) The Loan and any costs incurred in connection with the sale of the Shares must be repaid to the Company upon the sale of the Shares.
- (g) The Company may appoint a trustee on such terms and conditions as the Board determines for the purpose of acquiring and holding the Shares on behalf of Participants in accordance with the terms set out in an Offer or the rules of the ESLP.

- (h) On issue of Shares to, or for the benefit of, a Participant, the Participant will be entitled to exercise all rights of a shareholder attaching to the Shares, subject to:
- (i) any rights of the trustee (if any) as specified in the Offer; and
  - (ii) any restrictions on the exercise of a Participant's rights contained within the Rules.
- (i) Until the Loan is repaid, the rights and entitlements attaching to Shares issued to a Participant must be exercised to comply with the rules of the ESLP.

## **8.2 Number of securities issued under the ESLP**

No securities have been issued to, or for the benefit of, employees or Directors under the ESLP as at the date of this Notice of Annual General Meeting.

## **8.3 Corporations Act**

The Board also seeks shareholder approval pursuant to Section 260C of the Corporations Act 2001 (**Corporations Act**).

Section 260A of the Corporations Act states that a company may financially assist a person to acquire shares in the company only if:

- (a) giving the assistance does not materially prejudice the interests of Funtastic or its shareholders or the company's ability to pay its creditors;
- (b) the assistance is approved by the shareholders under Section 260B; or
- (c) the assistance is exempt under Section 260C.

Section 260C(4) provides that financial assistance is exempt from Section 260A if it is given under an employee share scheme that has been approved by a resolution passed at a general meeting of the company.

The Board believes that the giving of financial assistance to assist eligible employees to acquire shares in the Company under the Plan will not materially prejudice the interests of the Company or its shareholders or the Company's ability to pay its creditors. However, as approval is already being sought under Listing Rule 7.2, the Board believes that it is appropriate to also seek approval under Section 260C(4). Accordingly, the Board seeks shareholder approval under Section 260C of the Corporations Act to implement to ESLP.

## **8.4 Recommendation**

The Directors unanimously recommend that shareholders vote in favour of the resolution in Item 8.

# **9. Approval of issue to Directors under the Employee Share Loan Plan**

As detailed in section 7.1 above, ASX Listing Rule 10.11 requires shareholder approval to be obtained in respect of an issue of equity securities to a Director unless an exception in ASX Listing Rule 10.12 applies.

Exception 4 to ASX Listing Rule 10.12 provides that ASX Listing Rule 10.11 does not apply to issues made with the approval of shareholders under ASX Listing Rule 10.14.



ASX Listing Rule 10.14 provides that an entity must only allow Directors or their associates to acquire securities under an employee incentive plan with the approval of shareholders and provided the Notice of Meeting pursuant to which such approval was sought complied with ASX Listing Rules 10.15 or 10.15A.

The Board seeks the capacity to invite Messrs Stewart Downs, Nir Pizmony and Paul Wiegard to participate in the ESLP.

Resolutions 9, 10 and 11 seek shareholder approval under ASX Listing Rule 10.14 for the issue of up to 500,000 Shares to each of Stewart Downs, Nir Pizmony and Paul Wiegard under the ESLP. The Board considers that the issue of Shares to Stewart Downs, Nir Pizmony and Paul Wiegard under the ESLP is in Funtastic's interests as it aligns the interests of those executive Directors with the interests of Funtastic's shareholders.

The Directors consider that shareholder approval pursuant to Chapter 2E of the Corporations Act is not required as the issue of Shares forms part of the reasonable remuneration of Messrs Stewart Downs, Nir Pizmony and Paul Wiegard.

#### **9.1 Information required under ASX Listing Rule 10.15A**

In accordance with ASX Listing Rule 10.15A, the following information is provided to shareholders:

- (a) The Board is seeking approval for Messrs Stewart Downs, Nir Pizmony and Paul Wiegard, Directors of Funtastic, to participate in the ESLP;
- (b) The maximum number of Shares which may be acquired by Messrs Stewart Downs, Nir Pizmony and Paul Wiegard under the ESLP is as follows:
  - (i) Stewart Downs: 500,000 Shares;
  - (ii) Nir Pizmony: 500,000 Shares; and
  - (iii) Paul Wiegard: 500,000 Shares;
- (c) The issue price for Shares under the ESLP will be the volume weighted average price of ordinary shares in the Company over the five trading days (excluding special crossings and overnight sales) following the announcement of the Company's last full year financial results;
- (d) No securities have been issued to or for the benefit of employees under the ESLP as at the date of this Notice of Annual General Meeting;
- (e) If the resolutions in Items 9, 10 and 11 are approved by shareholders, the only persons referred to in ASX Listing Rule 10.14 who will be approved to participate in the ESLP will be Messrs Stewart Downs, Nir Pizmony and Paul Wiegard;
- (f) The amount of any Loan offered to an eligible employee under the ESLP will be the issue price per Share multiplied by the number of Shares to be issued to the eligible employee;
- (g) Any Loan offered to an eligible employee under the ESLP will be interest-free and on the basis that the Company will only have recourse to the Shares (including any associated bonus Shares) issued under the ESLP and any funds received from the sale of such Shares;

- (h) Details of any Shares issued under the ESLP will be published in each annual report of the Company relating to the period in which Shares have been issued with a statement that approval for the issue of the Shares was obtained under ASX Listing Rule 10.14;
- (i) Any additional person who is prevented by ASX Listing Rule 10.14 from acquiring Shares under the ESLP without shareholder approval, who becomes entitled to participate in the ESLP after shareholder approval for the resolutions in Items 9, 10 and 11 are obtained, and who is not named in this Notice of Annual General Meeting, will not participate in the ESLP until shareholder approval is obtained under ASX Listing Rule 10.14; and
- (j) The date by which the Company will issue all of the Shares referred to in the resolutions in items 9, 10 and 11 is 18 December 2015, being the date that is 3 years after the date of the Annual General Meeting.

## 9.2 Recommendation

The Directors (other than Paul Wiegard) recommend that shareholders vote in favour of the resolution in Item 9.

The Directors (other than Nir Pizmony) recommend that shareholders vote in favour the resolution in Item 10.

The Directors (other than Stewart Downs) recommend that shareholders vote in favour the resolution in Item 11.

## 10. Approval of 10% Placement Capacity

### 10.1 General

ASX Listing Rule 7.1A provides that an eligible entity may seek shareholder approval at its annual general meeting to allow it to issue equity securities (which term has the meaning given to it in the ASX Listing Rules) to up to 10% of its issued capital over a period up to 12 months after its annual general meeting (**10% Placement Capacity**). The 10% Placement Capacity is in addition to the capacity to issue securities under ASX Listing Rule 7.1 without shareholder approval.

If shareholders approve the resolution in Item 12, the number of equity securities Funtastic may issue under the 10% Placement Capacity will be determined in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 (refer to section 10.2 below).

The resolution in Item 12 is a special resolution. Accordingly, at least 75% of votes cast by shareholders present and eligible to vote at the meeting (in person, by proxy, by attorney or, in the case of a corporate shareholder, by a corporate representative) must be in favour of the resolution in Item 12 for it to be passed.

### 10.2 ASX Listing Rule 7.1A

The ASX Listing Rules provide that an entity that satisfies both of the following tests may seek shareholder approval under ASX Listing Rule 7.1A:

- (a) the entity is not included in the S&P/ASX 300 Index; and
- (b) the entity's market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) is not greater than \$300,000,000.

Funtastic is not included in the S&P/ASX 300 Index and has a market capitalisation, as at 2 November 2012, of \$110,248,919.

Any equity securities issued in reliance of ASX Listing Rule 7.1A must be in the same class as an existing class of quoted equity securities. Funtastic currently has one class of equity securities on issue which are quoted, being the Shares.

ASX Listing Rule 7.1A.2 provides that eligible entities which have obtained shareholder approval at an annual general meeting may issue or agree to issue, during the 12 month period after the date of the annual general meeting, a number of equity securities calculated in accordance with the following formula:

$$(A \times D) - E$$

Where:

**A** is the number of Shares on issue 12 months before the date of issue or agreement:

- (a) plus the number of Shares issued in the previous 12 months under an exception in ASX Listing Rule 7.2;
- (b) plus the number of partly paid shares that became fully paid in the previous 12 months;
- (c) plus the number of Shares issued in the previous 12 months with the approval of shareholders under ASX Listing Rules 7.1 and 7.4; and
- (d) less the number of Shares cancelled in the previous 12 months.

**D** is 10%.

**E** is the number of equity securities issued or agreed to be issued under ASX Listing Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue that are not issued with the approval of holders of Shares under ASX Listing Rule 7.1 or 7.4.

### 10.3 Information required by ASX Listing Rule 7.1A

ASX Listing Rule 7.3A requires the following information to be provided in relation to a resolution under ASX Listing Rule 7.1A:

#### (a) Minimum Price

The minimum price at which the equity securities may be issued is 75% of the volume weighted average price of equity securities in that class, calculated over the 15 ASX trading days on which trades in that class were recorded immediately before:

- (i) the date on which the price at which the equity securities are to be issued is agreed; or
- (ii) if the equity securities are not issued within 5 ASX trading days of the date in paragraph (i) above, the date on which the equity securities are issued.

#### (b) 10% placement period

The equity securities may be issued under the 10% Placement Capacity commencing on the date of the 2012 Annual General Meeting and expiring on the first to occur of:

- (i) 12 months after the date of the Funtastic 2012 Annual General Meeting; or

- (ii) the date of approval by shareholders of any transaction under ASX Listing Rule 11.1.2 (a significant change to the nature or scale of the Company's activities) or ASX Listing Rule 11.2 (disposal of the Company's main undertaking),

or such longer period if allowed by ASX.

**(c) Risk of voting dilution**

Any issue of equity securities under the 10% Placement Capacity will dilute the interests of shareholders who do not receive any Shares under the issue.

If the resolution in Item 12 is approved by shareholders and the Company issues the maximum number of equity securities available under the 10% Placement Capacity, the economic and voting dilution of existing Shares would be as shown in the table below, in the circumstances set out in the table below.

The table below shows the dilution of existing shareholders on the basis of the closing price of the Shares on the ASX on 2 November 2012 and the number of Shares for variable A, calculated in accordance with the formula outlined in ASX Listing Rule 7.1A.2, on the date of this notice.

The table also shows the voting dilution impact where the number of Shares on issue (variable A in the formula) has increased by 50% and by 100% and the economic dilution where the issue price of Shares issued under the 10% Placement Capacity is 50% less than the closing price of the Shares on the ASX on 2 November 2012 and 100% greater than the closing price of the Shares on the ASX on 2 November 2012.

Variable A in ASX Listing Rule 7.1A.2		Dilution		
		\$0.1025	\$0.205	\$0.41
		50% decrease in Issue Price	Issue Price	100% increase in Issue Price
Current Variable A 537,799,605	10% voting dilution	53,779,961 Shares	53,779,961 Shares	53,779,961 Shares
	Funds raised	\$5,512,446	\$11,024,892	\$22,049,784
50% increase in Current Variable A 806,699,408	10% voting dilution	80,669,941 Shares	80,669,941 Shares	80,669,941 Shares
	Funds raised	\$8,268,669	\$16,537,338	\$33,074,676
100% increase in Current Variable A 1,075,599,210	10% voting dilution	107,559,921 Shares	107,559,921 Shares	107,559,921 Shares
	Funds raised	\$11,024,892	\$22,049,784	\$44,099,568

The number of Shares on issue (variable A in the formula) could increase as a result of the issue of Shares that do not require shareholder approval (such as under a pro-rata rights issue or scrip issued under a takeover offer) or that are issued with shareholder approval under ASX Listing Rule 7.1.

The table above has been prepared on the basis of the following assumptions:

- (i) The Issue Price set out in the table is the closing price of the Shares on the ASX on 2 November 2012.
- (ii) The Company issues the maximum possible number of equity securities under the 10% Placement Capacity.

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- (iii) No rights convertible into Shares are exercised.
  - (iv) The Company has not issued any equity securities in the 12 months prior to the date of the 2012 Annual General Meeting that were not issued under an exception in ASX Listing Rule 7.2 or which were not approved under ASX Listing Rule 7.1 or 7.4 (ie, that Resolutions 5, 6 and 7 in this Notice of Annual General Meeting are approved by shareholders).
  - (v) This table does not set out any dilution pursuant to approvals under ASX Listing Rule 7.1.
  - (vi) The issue of equity securities under the 10% placement facility consists only of Shares.

Shareholders should note that there is a risk that:

- (i) the market price for the Shares may be significantly lower on the issue date than on the date of the 2012 Annual General Meeting; and
- (ii) the equity securities issued under the 10% Placement Capacity may be issued at a price that is at a discount to the market price for the Shares on the date of issue or the equity securities may be issued as part of the consideration for the acquisition of an asset,

which may affect the amount of funds raised by the issue.

Shareholders should also note that the calculations in the table do not show the dilution that any one particular shareholder will be subject to. All shareholders should consider the dilution caused to their own shareholding depending on their specific circumstances.

**(d) Purpose of Issue under 10% Placement Capacity**

The Company may issue equity securities under the 10% Placement Capacity for the following purposes:

- (i) as cash consideration in which case the Company intends to use funds raised for either or both of working capital purposes or to take advantage of acquisition opportunities; or
- (ii) as non-cash consideration for the acquisition of businesses or product lines to grow the business of the Company. In such circumstances the Company will provide a valuation of the non-cash consideration as required by ASX Listing Rule 7.1A.3.

**(e) Allocation under the 10% Placement Capacity**

The allottees of the equity securities to be issued under the 10% Placement Capacity will depend on prevailing market conditions and will be determined on a case by case basis. However, the allottees of equity securities could consist of current shareholders, new investors or both. Allottees may also include vendors of assets into the Company.

The Company will determine the allottees at the time of the issue under the 10% Placement Capacity, having regard to the following factors:

- (i) the purpose of the issue;

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- (ii) alternative methods for raising funds available to the Company at that time, including, but not limited to, an entitlement issue or other offer where existing shareholders may participate;
  - (iii) the effect of the issue of the equity securities on the control of the Company;
  - (iv) the circumstances of the Company, including, but not limited to, the financial position and solvency of the Company;
  - (v) prevailing market conditions; and
  - (vi) advice from corporate, financial and broking advisers (if applicable).

#### **10.4 Previous Approval under ASX Listing Rule 7.1A**

The Company has not previously obtained approval under ASX Listing Rule 7.1A.

#### **10.5 Voting exclusion statement**

A voting exclusion statement is included in the notice. As at the date of the notice, Funtastic has not approached any existing shareholder, security holder or an identifiable class of existing security holders to participate in the issue of any equity securities under Listing Rule 7.1A. Therefore, no existing shareholder's votes will be excluded under the voting exclusion in the notice.

#### **10.6 Recommendation**

The Directors unanimously recommend that shareholders vote in favour of the resolution in Item 12.

By order of the Board

Date 12 November 2012

Signed



Name

James Cody  
Company Secretary

# Additional Information

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Please visit the Annual General Meeting page on our website – [www.funtastic.com.au](http://www.funtastic.com.au) – to obtain further information on the meeting.

## Will you be attending?

To assist our planning, please let us know whether you will be attending the Annual General Meeting by:

Email: [Kirstin.Hunter@funtastic.com.au](mailto:Kirstin.Hunter@funtastic.com.au)

Telephone: 03 8531 0002

**By Car** - there are around 9,600 free car spaces at Chadstone Shopping Centre. The best location to park for the Funtastic Office is in the Woolworths Car Park accessible via either the Dandenong Road or Warrigal Road entrance.

**By Train** - Chadstone Shopping Centre is located close to four train stations: Oakleigh, Hughesdale and Murrumbeena stations on the Dandenong, Cranbourne or Pakenham lines and Holmesglen Station on the Glen Waverley line. A short bus trip completes the journey to Chadstone from these stations. However, the Hughesdale station is only a short 10-15 minute walk along Poath Road to Chadstone Shopping Centre.

**By Bus** - Chadstone is easily accessible by bus with 13 suburban bus routes stopping at the centre. From Oakleigh Station take one of the following bus routes: 903 'To Altona' to get to Chadstone; 742, 800, 802, 804 or 862 (towards Chadstone), or - 900 (towards Caulfield). From Murrumbeena Station take bus Route 822 (towards Chadstone). From Holmesglen Station take bus Route 624 or 903.