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4 March 2014

ASX Announcement
Funtastic Potential Divestment and Trading Update

Funtastic has recently received two Expressions of Interest for the potential purchase of the Madman business. In the process of assessing these offers it has become evident that the carrying value **(*circa* $52m)** of Madman Entertainment is higher than its fair market value. Whilst we have not fully completed the impairment assessment, we would expect there would be an impairment charge within the range of **$22 to $28m**. It is anticipated that we will finalise a possible sale transaction of Madman prior to announcing our first half results and that our half year accounts will present Madman as a business up for sale. Following the finalisation of the Madman sale process, we will initiate actions to streamline the business as a single entity structure. Funtastic would use the proceeds to repay debt with a projected net debt position at the end of the financial year of *circa* $25m.

The full year outlook for the business without the sale of Madman (excluding impairment charge) will see EBITDA in the range of $19m to $23m (PY $24.1m including significant items) and sales growth of 10-15%. Madman's contribution of EBITDA will be within the range of $6-7m (excluding impairment) (PY $8.2m). The first half EBITDA will be in the range of $3-$4m (PY $14.9m including significant items).

Core sales will grow on a full year basis by *circa* 20% and second half at 30-40% The success of the second half performance will be driven by the following key factors:.

1. The positive impact of the new US distribution agreement for CHILL FACTOR™ with Spinmaster launching in March 2014.
2. The seasonality of our International business is strongly skewed to the second half driven by CHILL FACTOR™ and the Northern Hemisphere purchases.
3. The continued strength of our own brands, now exceeding 40% of the Domestic business.
4. The Australian launch of our own new brands in July.
5. Showcased product line extensions for CHILL FACTOR™ to now include a Yoghurt Maker and Jelly Maker to perform alongside the Slushie Cup and Ice Cream Maker.
6. Securing the domestic distribution rights of Rainbow Loom into the portfolio which will provide a key trend and brand that is very successful and recently picked up four awards at the New York Toy Fair, including the coveted 'Toy of the Year'.

The uplift in contribution from our own brands domestically and internationally re-enforces the Company's strategic imperative of owning and developing our own brands and Intellectual property.

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Funtastic Limited advises that its first half results will be significantly lower than prior year due to a number of key contributing factors.

1. Funtastic Australia has been impacted by:
    a. An increase in the cost of doing business, particularly with the mass merchants;
    b. The weaker exchange rate; and
    c. Poor performance of key brands Leapfrog, Power Rangers and Ben 10. However partially offset by the exceptional performance by CHILL FACTOR™.

2. Madman performance was significantly lower than prior year due to:
    a. A de-stocking within key customers as part of a proposed transition to a consignment stock model from the current sale and return practice;
    b. Theatrical revenues being rescheduled particularly versus prior year; and
    c. Conversion to digital has grown in excess of 40% but insufficient to offset the impact of the factors above.

3. Continued investment in International expansion:
    a. Change to our US distributor for CHILL FACTOR™ which now forms an exciting launch for Funtastic as it embarks on a massive program in the US particularly with the support of America's largest retailer; and
    b. Hong Kong infrastructure to support ongoing growth and product development.

As previously noted, the impact of the above will see Funtastic reporting a first half EBITDA (including Madman, excluding impairment) in the range of $3m to $4m (PY $14.9m including significant items).

Funtastic remains committed to its strategy of growing, owning and developing its own brands and driving sales in International markets. The Board is confident with the potential divestment of Madman that revenues can be replaced and the proceeds from the sale will strengthen the balance sheet, which meets the group's long term objective of debt reduction.

The Directors at this point see no reason why dividends which resumed last year won't continue.

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