2nd June 2014

FUNTASTIC LIMITED (ASX: FUN)

TRADING UPDATE

Funtastic Limited (FUN) has reviewed the company's full year outlook following the initial launch of Chill Factor in the US, the third quarter's performance in Australia and the impact of new product lines recently launched.

Chill Factor's sales in the US and Canada have been encouraging but at a slower rate than initially expected, due in part to cooler than average weather and a slower than anticipated full distribution capability in these geographies. This will impact FY14's results, and was previously identified as a key risk when delivering our first half result this year. Chill Factor will continue to grow significantly in the North American market throughout FY15 and it remains a product about which the company is very optimistic.

Whilst the performance of the domestic business has improved significantly due to new product lines being launched, there has been a softer than expected sales performance into the larger Australian retailing market, driven principally by curtailed replenishment activity. The company's margins have also been negatively impacted due to mix of business, with higher USD based and agency brand sales.

The impact of the above changes is expected to result in a full year EBITDA, prior to asset carrying value adjustments, of between $10m to $12m, down from previous guidance of $19m to $23m.

Whilst this result is disappointing, EBITDA in the second half of FY14 will be more than double the EBITDA performance in the first half of the year.

The board remains confident that the strategy to own and develop Funtastic's own brands globally is the right strategy going forward to deliver improved shareholder value over time.

A recent initiative undertaken to improve the cash flow performance of the business and reduce operating costs is a full re-assessment of the company's product range and required warehousing requirements after the December 2014 expiration of the current third party logistics and warehousing contract. Funtastic has embarked upon an aggressive clearance plan to reduce non-core, slow moving and obsolete stock. This initiative is expected to result in an adjustment to the carrying value of the inventory of a range between $3m and $6m. This reduction in carrying value is separate to the EBITDA guidance above. Ongoing warehousing & logistics costs will be materially lower going forward.

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SALE OF MADMAN BUSINESS

The board is confident that the sale of the Madman business will proceed as planned and will be completed by the end of the FY14 financial year. The sale process is advanced and, at this point in time, the company does not expect any significant change to the previously recorded carrying value write-down of $24.2m. The sale of Madman, stock adjustment, cost rationalisation, product expansion and continued own brand development globally will result in a stronger balance sheet, efficient cost base and a high quality product portfolio that will deliver a more consistent earnings growth profile going forward.

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