Recapitalisation Presentation

13 September 2018

Disclaimer

This Presentation has been prepared by Funtastic Limited (ABN 94 063 886 199) ("Funtastic", "FUN" or "the Company") in connection with a proposed Placement of fully paid ordinary shares in FUN ("New Shares") to institutional investors and a non-renounceable pro rata entitlement offer ("Entitlement Offer") of New Shares. The Placement and Entitlement Offer will be made under section 708A and section 708AA of the Corporations Act 2001 (Cth) ("Corporations Act") respectively. You must read this important notice if you have been provided with and intend to read this Presentation. By accepting this Presentation, you accept that that it is provided on the terms and conditions of this notice.

In this Presentation the Placement and the Entitlement Offer are together referred to as the "Offer" or "Capital Raising".

Summary Information

This Presentation contains summary information about the Company to assist with your own evaluation of the proposed Entitlement Offer. This information is of a general nature and does not purport to be complete nor does it contain all the information which a prospective investor should consider when making an investment decision or that would be required in a prospectus or product disclosure statement prepared in accordance with the requirements of chapter 6D or Part 7.9 of the Corporations Act. This Presentation should be read in conjunction with FUN's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange ("ASX"), which are available at www.asx.com.au. The historical information in this Presentation is, or is based upon, information that has been released to the ASX. This Presentation should be read in conjunction with FUN's other periodic and continuous disclosure announcements which are available at www.asx.com.au. You are advised to read this disclaimer carefully before reading or making any other use of this Presentation or any information contained in this Presentation. In accepting this Presentation, you agree to be bound by the following terms and conditions including any modifications to them.

Not an offer

This Presentation is for information purposes only and is not a prospectus, product disclosure statement or other offering document under Australian law (and will not be lodged with the Australian Securities and Investments Commission ("ASIC") or any other law.

The Presentation does not and will not constitute or form part of an offer, invitation, solicitation or recommendation in relation to the subscription, purchase or sale of securities in any jurisdiction and neither this Presentation nor anything in it shall form any part of any contract for the acquisition of New Shares. The distribution of this Presentation in jurisdictions outside Australia may be restricted by law and you should observe any such restrictions.

In particular, this Presentation is not an offer of securities or a solicitation of an offer to purchase securities in the United States. Securities may not be offered or sold in the United States without registration or an applicable exemption from the registration requirements of the US Securities Act. The offer or sale of the FUN's securities in the Capital Raising described in this Presentation has not and will not be registered under the US Securities Act and the securities may not be offered or sold except in transactions that are exempt from, or not subject to, the registration requirements of the US Securities Act. By accepting this Presentation you represent and warrant that you are entitled to receive this Presentation in accordance with the securities laws of your jurisdiction and agree to be bound by the limitations contained in that section and elsewhere in this Presentation.

Any decision to purchase New Shares must be made on the basis of the information to be contained in a separate offer booklet to be prepared and sent to eligible shareholders ("Eligible Shareholders"). The offer booklet for the Entitlement Offer will be available following its lodgement with ASX. Any Eligible Shareholder who wishes to participate in the Entitlement Offer should consider the offer booklet in deciding to apply under that offer. Anyone who wishes to apply for New Shares under the Entitlement Offer will need to apply in accordance with the instructions contained in the offer booklet and the entitlement and application form.

Not investment advice

This Presentation does not constitute investment or financial product advice nor any recommendation to acquire New Shares, pursuant to an underwriting agreement or otherwise. It is not intended to be used on the basis for making a financial decision, nor is it intended to constitute legal, tax, or accounting advice or opinion. Any references to, or explanations of, legislation, regulatory issues, benefits or any other legal commentary are indicative only, do not summarise all relevant issues and are not intended to be a full explanation of a particular matter. Relevant parties should make their own enquiries and investigations regarding any investment, and should seek their own profession advice on the legal, financial, accounting, taxation and other consequences of investing in any securities in FUN.

The Presentation has been prepared without taking into account your investment objectives, financial situation or particular needs. No reliance may be placed for any purpose whatsoever on the information contained in the Presentation or on its accuracy or completeness. Any reliance on this communication could potentially expose you to a significant risk of losing all of the funds invested by you in FUN and incurring by you of additional liability. FUN is not licensed to provide financial product advice in respect of New Shares. Cooling off rights do not apply to the acquisition of New Shares.

Disclaimer

Investment risk

An investment in New Shares is subject to known and unknown risks, some of which are beyond the control of FUN, including possible loss of income and principal invested. FUN does not guarantee any particular rate of return or the performance of FUN, nor does it guarantee the repayment of capital from FUN or any particular tax treatment.

You should have regard to the risk factors outlined in this Presentation when making any investment decision.

Forward looking statements

The Presentation contains forward looking statements. Forward looking statements can generally be identified by the use of forward-looking words such as "expect", "anticipate", "likely", "intend", "should", "could", "may", "predict", "plan", "propose", "will", "believe", "forecast", "estimate", "target", "outlook", "guidance" or other similar expressions and include statements regarding the timing and outcome of the Capital Raising, FUN's strategies and plans and the future operational and financial performance of FUN. You should be aware that any such statements are only estimates or predictions, which may be based on subjective judgments and assumptions as to future events, which may or may not occur and which are subject to inherent risks (including the risks described in the Presentation under "key risks", and uncertainties, many of which are beyond the control of FUN. Actual events or results may differ materially from the events or results expected or implied in any forward looking statement. No representation or warranty (whether express or implied) is made as to the accuracy or likelihood of fulfilment of any forward looking statement, including whether any aspect of FUN's proposed recapitalisation will be achieved.

Past performance

You should note that past performance, including past share price performance and pro forma historical information in this Presentation is given for illustrative purposes only and cannot be relied upon as an indicator of (and provides no guidance as to) future performance including future share price performance. This historical information includes pro forma historical information which is not represented as being indicative of FUN's views on its future financial condition and/or performance. The historical information in this Presentation is, or is based upon, information that has been released to ASX.

Disclaimers

Except as required by law, no representation or warranty, express or implied, is made as to the fairness, accuracy, completeness, reliability or correctness of the information, opinions and conclusions, or as to the reasonableness of any assumption contained in this Presentation. By receiving this Presentation and to the extent permitted by law, you release FUN and its officers, employees, agents, advisers and associates from any liability (including, without limitation, in respect of direct, indirect or consequential loss or damage or loss or damage arising by negligence) arising as a result of the reliance by you or any other person on anything contained in or omitted from this Presentation.

Financial data

All dollar values are in Australian dollars (A$), unless otherwise stated. Financial data is presented at actual foreign exchange rates, unless otherwise stated. A number of figures, amounts, percentages, estimates, calculations of value and fractions in this Presentation are subject to the effect of rounding. Accordingly, the actual calculations of these figures may differ from figures set out in this Presentation.

Unless specifically indicated in this Presentation, the financial information contained in this Presentation has not been audited, examined or otherwise reviewed in accordance with Australian Accounting Standards.

Distribution restrictions

Neither the Presentation, nor any copy of it, may be taken, transmitted into or otherwise made available in the United States or any jurisdiction where its issuance, distribution or transmission is prohibited under the law of that jurisdiction. Any failure to comply with any such restriction may constitute a violation of relevant local securities laws.

Executive Summary

Funtastic Limited ("Funtastic" or "the Company") is a leading brand builder and international distributor of toys, confectionery and various family learning and lifestyle goods.

Debt restructuring

- Funtastic has entered into an agreement with its financier, National Australia Bank ("NAB"), for full and final settlement of all liabilities owing to NAB ("Debt Restructuring")
- The reduction in financial indebtedness will total approximately $21.3m, and will include a $5.0m repayment using funds raised under the Capital Raising and a $16.3m debt forgiveness
- Net debt reduction of $16.3m equates to approximately 2.5x the current market capitalisation of Funtastic
- The net asset position moves from negative $10.9m to positive $10.8m post transaction
- Debt forgiveness is worth approximately 16.9c per share

$8.2m Capital Raising raising at $0.06 per share ("Offer")

- $1.2m Placement of New Shares to professional and sophisticated investors
- $7.0m Fully Underwritten 1-for-1 non-renounceable rights issue to eligible shareholders
- Funds raised will be used to repay $5m to NAB, for general working capital purposes and to pay the costs of the Offer

FY18 and FY19 Guidance[1]

- FY18 unaudited Operating EBITDA of approximately $2.5m expected to be announced end of September
- Forecast FY19 revenue growth of 17%
- FY19 Operating EBITDA guidance of approximately $2.8m
- Estimated tax losses of $120m at end of FY18 worth approximately 125c per share
- Successful restructuring of the business has been achieved, creating a solid platform for both organic and inorganic growth

1 - Please refer to the "forward looking" statements section of the disclaimer to the Presentation

Transaction Impact

- NAB debt is eliminated post completion of the Offer
- Net assets become positive
- FY19 EV/EBITDA multiple is reduced by 32% to approximately 6.1x

(in $millions)	Current[1]	Recapitalisation Impact	Post	% Change
Market Capitalisation[2]	$5.8	$8.2	$14.0	142%
Net Debt	$19.3	($19.3)[3]	$3.0[4]	-84%
Enterprise Value	$25.1	($8.1)	$17.0	-32%
FY19 EBITDA	$2.8		$2.8	-
Net Assets	($10.9)		$10.8	-
EV/EBITDA	9.0x		6.1x	-32%
ND/EBITDA	6.9x		1.1x	-84%
Gearing	3.3x		0.2x	-94%
Interest Cover	1.5x		6.6x	348%

1) Current refers to unaudited FY18 year end estimates
2) At Offer Price of $0.06 per New Share
3) Remaining funds after repayment to NAB are invested in working capital and costs of the Offer – not net cash
4) Small working capital facility with new financier expected to be implemented post transaction completion

Net Asset Position post Transaction

- This proforma Balance Sheet illustrates the effect of the Capital Raising and Debt Restructuring of the Company as at 31 July 2018
- Net assets become positive

BALANCE SHEET	Audited FY17	Unaudited FY 18	Effect of Capital Raising and Debt Restructure	Proforma FY18
	$'000	$'000	$'000	$'000
Current Assets				
Cash Assets	664	252	585	837
Receivables	2,535	5,803		5,803
Inventory and other assets	11,374	7,167	1,800	8,967
Total Current Assets	**14,573**	**13,222**	**2,385**	**15,607**
Non Current Assets				
Property, Plant and Equipment	457	408		408
Goodwill and Other Intangibles	4,287	938		938
Other Non-Current Assets	29			-
Total Non Current Assets	**4,773**	**1,346**	**-**	**1,346**
Total Assets	**19,346**	**14,568**	**2,385**	**16,953**
Current Liabilities				
Trade Payable	9,213	3,541		3,541
Interest bearing Liabilities- Current	52,562	17,338	-17,338	-
Other Liabilities & Provision	8,187	2,529		2,529
Total Current Liabilities	**69,962**	**23,408**	**-17,338**	**6,070**
Non Current Liabilities				
Interest Bearing Liabilities- Non Current	-	2,000	-2,000	-
Other Liabilities & Provision	128	106		106
Total Non Current Liabilities	**128**	**2,106**	**-2,000**	**106**
Total Liabilities	**70,090**	**25,514**	**-19,338**	**6,176**
Equity				
Contributed Equity	209,483	217,395	8,235	225,630
Retained Profits/Other Reserved	-260,197	-228,341	13,488	-214,853
Total Equity	**-50,714**	**-10,946**	**21,723**	**10,777**

1 – See Appendix A for information about the basis of preparation of the Proforma Balance Sheet.

1. FY18 Preliminary Full Year Results and FY19 Business Outlook

FY18 Preliminary Full Year Results & FY19 Guidance

(in $millions)	FY17 Actual	FY18 Preliminary (unaudited & subject to finalisation)	FY19 Outlook
Revenue (net)	55.7	41.7	48.6
EBITDA (operating)	(5.6)	2.5	circa 2.8
Non-cash book profit related to debt reduction and impairment of goodwill and intangibles	(17.1)	31.0	15.0[1]
Discontinued operations	(3.8)	(0.1)	-
Interest expense	(3.6)	(1.9)	(0.8)[3]
Depreciation and amortisation	(1.6)	(1.7)	(0.2)
Taxation[2]	(1.7)	(8.9)	(4.8)
Profit/(loss) after tax	(33.5)	20.9	11.2

FY18

- Revenue declined by 25% due to the sale of the international business and loss of agency brands.
- Gross margin % increased by 10 percentage points above historical averages due to sales of high margin transactional products.
- Restructuring initiatives reduced fixed overheads by 24%.
- Operating EBITDA profit of approximately $2.5m for the year.

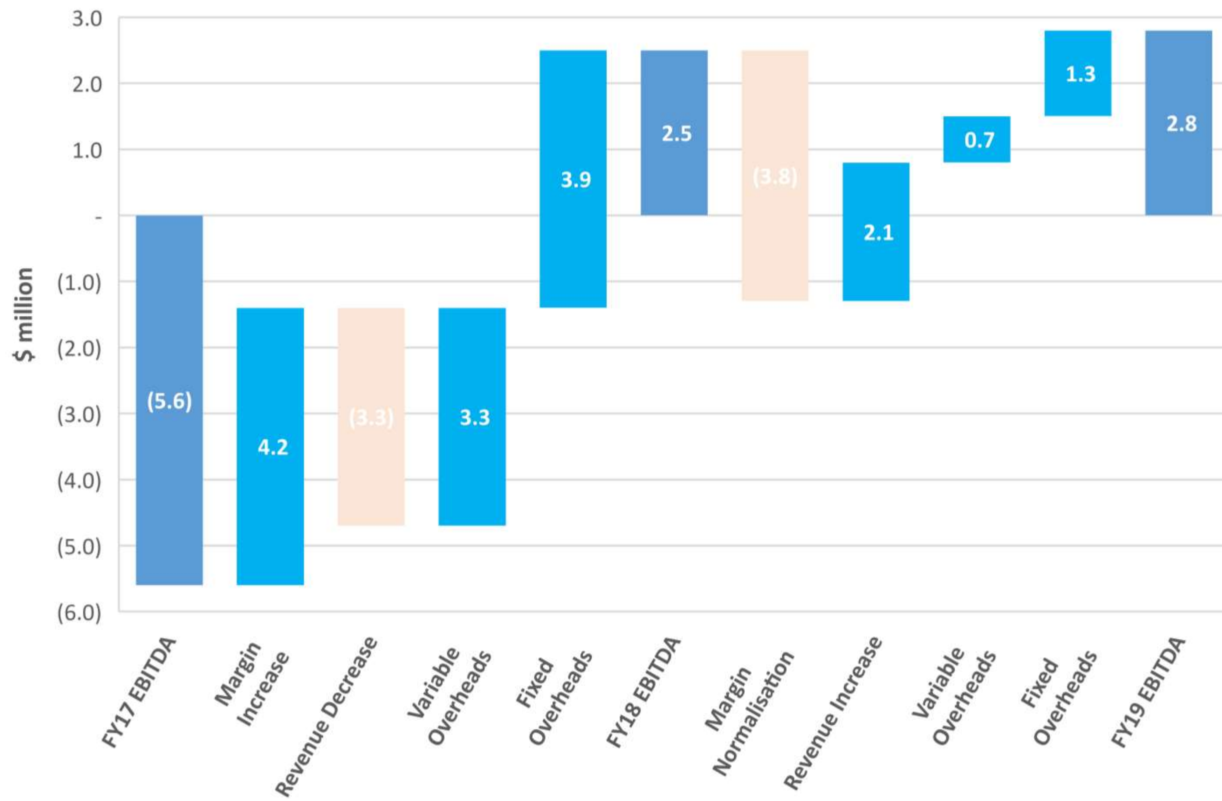
FY19

- Estimated revenue growth of 17%, which includes the expected initial sales of Toy Story 4 during the second half of the year.
- Gross margin % forecast to return to historical levels.
- Full year effect of restructuring activities and ongoing cost reduction initiatives will further reduce overhead costs.
- Forecast operating EBITDA of approximately $2.8m. Interest cost will be significantly lower due to the reduction in debt.

1 - This is as a result of the debt reduction, which will be reflected in the Company's FY19 financial statements.
2 – Non cash provision only. The company expects any tax liabilities to be offset by retained tax losses brought forward.
3 – Includes an estimate of interest costs associated with short term funding for Toy Story 4 working capital requirements.

FY18 Performance and FY19 Earnings Guidance[1]

- FY18 Operating EBITDA[2] of approximately $2.5m (unaudited).
- Funtastic forecasts delivering FY19 Operating EBITDA[2] of approximately $2.8m



Sales and gross profit forecasts for FY19 have been determined based on current base agency agreements and own brands, taking into account the current market environment with improvements expected to be driven by broader distribution, higher consumer demand and margins returning to historical levels with a change in product mix

1. – See Appendix B for FY19 Forecast Methodology.
2. – Excludes any debt reduction, goodwill, intangible write-offs and discontinued operations
3. – The directors of Funtastic consider the information and assumptions, taken as a whole and used to prepare the forecast financial information, to be appropriate and reasonable at the time of preparation. However, future matters are subject to significant uncertainties, many of which are outside the control of the directors of Funtastic and may also not be capable of being foreseen or accurately predicted. As a result, no assurance can be given that the forecast financial information will be achieved.

Strategic Initiatives

Funtastic is implementing the following 10 strategic initiatives that will drive sustainable revenue and profitability growth:

- Develop and grow our own brands.
- Grow our international distribution footprint and performance of our own brands.
- Develop long term supply partnerships and reduce dependence on transactional opportunities.
- Focus on key categories and grow with New Product Development disciplines.
- Capitalise on Emerging Technologies and Trends.
- Develop our customer footprint and distribution model beyond mass retail into Specialty, E-Commerce and Social Marketing.
- Implement disciplined business processes combined with enhanced commercial acumen.
- Continually review our cost base with a focus on minimising fixed costs.
- Align with Strategic partners and acquire where there is strategic relevance and profit growth.
- Invest in people, culture and leadership.

Toy Story 4

- As announced in May 2018, Funtastic has secured the Toy Story 4 licensing rights for Australia and New Zealand.
- This major achievement has positioned the company within the top 150 licensing companies globally, building on the foundation of other major licenses such as JoJo Siwa, Paw Patrol, LOL and others.
- Sales expected to commence during the second half of FY19 ahead of the movie release in June 2019.
- The revenue and cash flow forecast for the Toy Story 4 rights period is shown below.
- The Company expects to secure short term working capital funding to support the initial pipeline fill and inventory holding with accumulative cashflow becoming positive in FY20.

(in $millions)	FY19	FY20	FY21	FY22	Total
Net Sales from TS4	9.8	10.9	6.5	3.9	31.1
Operating cashflow attributable to TS4	(5.6)[1]	5.4	1.5	3.3	4.6

1 – Includes $0.6m deposit paid in FY18

Business Outlook

Funtastic expects the following business outlook for FY19:

- Funtastic sells, markets and distributes products within the Toy, Apparel, Tech and Confectionery categories. These categories remain relevant and valued by both major and specialty retailers. All categories are profitable with Toys dominated by one off transactions being our largest strategic challenge.
- Funtastic has secured the licensing rights for Toy Story 4 and will continue to seek other licensing opportunities, building on its foundation of the licenses for JoJo Siwa, Paw Patrol, LOL and others.
- Funtastic has secured the Australia/New Zealand distribution rights for Pai International and Learning Resources as the company expands its consumer offering into the learning and STEM[1] categories.
- The Australian e-commerce and speciality channels are poised for growth as consumer purchasing behaviour evolves. Funtastic has resourced and positioned itself to maximise growth from this opportunity.
- Opportunities to develop and grow own brands (Pillow Pets, Chill factor and Floaties) both domestically and internationally continue to be pursued. Improved distribution and consumption opportunities exist in brands such as Razor, Beacon, JoJo, LOL Accessories and Orbeez.
- Divestment, refinancing and successful implementation of a lower cost structure have positioned the business to accelerate growth initiatives.
- Funtastic will continue to build on its strong customer and supplier relationships and sourcing competency.
- The Company expects to build on its return to profitability in FY18 and deliver further growth and profitability in FY19.

1 – Science Technology Engineering Maths

2. Capital Raising & Debt Retirement

Placement & Entitlement Offer – Key Details

Placement

- Placement of approximately 20.6m shares to Sophisticated and Professional investors to raise $1.2m
- Placement shares will rank pari-passu with existing shares and will be eligible to participate in the Entitlement Offer

Entitlement Offer

- 1-for-1 fully underwritten non-renounceable Entitlement Offer of approximately 116.6m New Shares to Eligible Shareholders to raise $7.0m
- Entitlements may only be exercised by Eligible Shareholders, being persons who have a registered address in Australia or New Zealand on the Record Date
- New Shares issued under the Entitlement Offer will rank pari-passu

Offer Price

- The offer price of $0.06 per share ("**Offer Price**") under the Offer represents:
  - 16.7% discount to closing price on 7 September 2018 of $0.07 per share
  - 13.2% discount to 15 day VWAP[1]
  - 6.4% discount to TERP[2]

Use Of Funds

- $5.0m debt repayment to NAB to retire all debt facilities
- $3.2m for general working capital purposes and to pay the costs of the Offer

1 – Volume Weighted Average Price.
2 - The theoretical ex-rights price ("TERP") is a theoretical weighted average price at which the Company's existing shares should trade immediately after the "ex" date of the Entitlement Offer. The TERP is a theoretical calculation only and the actual price at which shares trade immediately after the "ex" date will depend on many factors and may not be equal to TERP.

Debt Retirement with NAB

Funtastic has entered into a binding agreement with NAB to repay them $5m[1] in return for:

   - Full and final settlement of all liabilities owing to NAB
   - Cancellation of the right held by NAB to convert $2m of debt into a convertible note[2]

- The reduction in financial indebtedness will be approximately $21.3m

In return Funtastic will:

- Return all current bank guarantees to NAB
- Close all transactional bank accounts it holds with NAB

It is expected that the debt restructuring agreement with NAB will be settled on or before 15 October 2018.

Funtastic is currently in advanced discussions with Scottish Pacific Business Finance to provide working capital and trade finance facilities post 15 October 2018[3].

Funtastic is currently in discussions with a number of other banks around future transactional account facilities.

1. While the precise amount of the debt reduction payment is subject to change, it is not expected to exceed approximately $5.4m.
2. NAB had the right to exchange a $2m Corporate Market Loan for a $2 million convertible note which could be converted into Funtastic shares at a conversion price of $0.175 at NAB's election.
3. Funtastic expects that the average amount drawn under any such new working capital facility over the course of FY19 will be approximately $3m. This amount does not include any working capital for Funtastic's Toy Story 4 commitments for FY19. The Company recognises that it will need to procure additional funding over a six to twelve month period to support this particular working capital requirement and is in preliminary discussions with various parties who may be willing to provide this additional working capital when required.

Capital Structure

	Number
Current shares on issue	96,025,827
New Shares to be issued under the Placement	20,562,620
Shares on issue following completion of the Placement	116,588,447
New Shares to be issued under the Entitlement Offer	116,588,447
Shares on issue following completion of the Entitlement Offer	233,176,894

Capital Raising Timetable

- The indicative timetable for the Entitlement Offer is as follows[1]:

Indicative Key Dates for the Entitlement Offer	Date
Trading halt	10/09/2018
Announcement of the Offer	13/09/2018
Issue of the Placement shares	13/09/2018
Shares trade Ex Entitlement	17/09/2018
Record date for Entitlement Offer ("Record Date")	18/09/2018
Offer Booklet and Entitlement & Acceptance Form despatched to shareholders	21/09/2018
Entitlement Offer opens ("Opening Date")	24/09/2018
Entitlement Offer closes ("Closing Date")	02/10/2018
Issue of New Shares under the Entitlement offer	09/10/2018
Despatch of holding statements for New Shares	09/10/2018
Commencement of trading of New Shares on ASX	10/10/2018

1 – The Company reserves the right, in consultation with the Underwriters, and subject to the Corporations Act, the Listing Rules and other applicable laws, to vary the dates of the Entitlement Offer, including extending the Closing Date of the Entitlement Offer or accepting late applications, either generally or in particular instances, without notice. The commencement of quotation and trading of New Shares is subject to confirmation from ASX.

Appendices

Appendix A – Basis of Preparation of Pro Forma Balance Sheet

- To illustrate the effect of the Capital Raising and Debt Restructuring on the Company, the pro forma consolidated balance sheet of the Company has been prepared as at 31 July 2018, based on the following principles:
  - a) The unaudited pro forma balance sheet has been prepared by management on the basis of accounting policies normally adopted by the Company.
  - b) The balance sheet is based on 31 July 2018 actual unaudited results and year-end adjustments.
  - c) The financial information provided remains subject to audit and finalisation.
  - d) The financial information is presented in abbreviated form, insofar as it does not include all of the disclosures required by the accounting standards applicable to financial statements.
- The actual financial position of the Company on completion of the Capital Raising and Debt Restructuring will differ from the position illustrated in the pro forma balance sheet due to operations during the period between 1 August 2018 and the date when the Capital Raising and Debt Restructuring is completed.

Appendix B – FY19 Forecast Methodology

- The FY19 EBITDA Forecast has been prepared by management based on the following key assumptions:
  - Successful completion of the Capital Raising and Debt Restructuring.
  - Revenue and margin projections are based on bottom up sales forecasts and margins, current secured products/agencies and current customer trading terms.
  - Estimates of corporate overheads are based on the restructured business activities, a bottom up assessment and contractual obligations and include the full year impact of significant staff reductions implemented during FY18.
  - The impact of a number of profit improvement initiatives identified to be implemented during FY19.
  - Minimal capital expenditure requirements due to reduction in the Company's own product development activities.

Appendix B – Key Risks

Summary

- Investors should be aware that there are risks associated with an investment in the Company. The activities of the Company and its controlled entities, as in any business, are subject to risks which may impact on the Company's future financial performance, position and prospects. There are a number of factors, both specific to the Company and of a general nature, which may affect the future operating and financial performance, position and prospects of the Company and the value of an investment in the Company. Some of these risks can be adequately mitigated by the use of safeguards and appropriate systems but many are beyond the control of the Company and its directors and cannot be mitigated.
- Prior to deciding whether to take up their New Shares under the Entitlement Offer, Eligible Shareholders should read this Presentation in its entirety and review the continuous disclosure and periodic announcements made by the Company to ASX (at www.asx.com.au, ASX: FUN) in order to gain an appreciation of the Company, its activities, operations, key risks, financial position and prospects. Shareholders should also consider the summary risk factors set out below in which the directors believe represent some of the key specific and general risks that Eligible Shareholders should be aware of when evaluating the Company and deciding whether to participate in the Entitlement Offer. The risk factors set out below are not intended to be an exhaustive list of all of the risk factors to which the Company, or investors in its securities, are exposed. Shareholders should also have regard to their own investment objectives and financial circumstances and should seek professional guidance from their stockbroker, solicitor, accountant or other professional adviser before deciding whether to invest.

Appendix B – Key Risks (cont.)

Specific Risks

- **Financial risk** – Although Funtastic has executed a binding agreement with NAB for the Debt Restructuring, it is still subject to the satisfaction of a number of outstanding conditions precedent, so there is risk that it may not eventuate or that a condition may not be satisfied. Even after a successful completion of the Debt Restructuring, the Company will continue to have debt obligations. These debt facilities contain a variety of material covenants which the Company and its subsidiaries must comply with. Whilst every effort will be made to seek to comply with the covenants, in the event of a breach, the relevant financier may be entitled to call for repayment of the facilities (and exercise its rights as a secured creditor where Funtastic defaults on such repayment). This will have a material adverse effect on the ability of the Company to continue its operations.

  Funtastic may not be able to access equity or debt capital markets to support its business growth objectives or successfully refinance its debt facilities on commercially acceptable terms, or at all.

  If Funtastic is unable to manage its indebtedness and the restrictions applicable to it as a result of this indebtedness, its ability to implement its business strategy may be impaired and the results of its operations and financial condition may be adversely affected.
- **Operational risk** – Funtastic is exposed to a range of operational risks including equipment failures and other accidents, industrial action or disputes, lease renewals, damage by third parties, floods, fire, major cyclone, earthquake, terrorist attack or other disaster. These risks may have a material adverse impact on Funtastic's financial performance and cash flows.

Appendix B – Key Risks (cont.)

Specific Risks (cont.)

- **Sustainability of revenues and margins** – The sustainability and growth in the level of Funtastic's revenue and profit margins is dependent on its continued ability to secure and maintain relationships with customers and suppliers. Funtastic relies on various key customer and supplier relationships and the loss or impairment of any of these relationships could have a material adverse effect on the Company's operations, financial condition and prospects.
- **Supply chain disruptions** – Funtastic has established an extensive and reliable supply chain that allows it to procure and deliver products to customers in a timely and efficient manner. Disruption to any aspect of this supply chain could have a material adverse impact on Funtastic's operational and financial performance.
- **IT systems** – Funtastic is reliant on the capability and reliability of its information technology systems and backup systems and those of its external service providers (such as communication carriers) to process transactions, manage inventory, report financial results and manage its business. The failure of any of Funtastic's or its customers' IT systems, including inventory management systems, could have a significant impact on Funtastic's ability to trade. Such failures may have an adverse effect on the Company's future financial performance.
- **Counterparty risk** – Third parties, such as customers, suppliers and other counterparties to contracts may not be willing or able to perform their obligations to Funtastic. Funtastic provides credit to its customers and the inability of its customers to pay their debts may materially impact the Company's financial performance, position and prospects.

Appendix B – Key Risks (cont.)

Specific Risks (cont.)

- **Loss of key personnel** – Funtastic's business operations depend to a significant extent on its key personnel, in particular its senior management team. These individuals have extensive experience in, and knowledge of, the markets Funtastic operates in and Funtastic's business. The loss of key personnel and the time taken to recruit suitable replacement(s) or additional personnel could adversely affect the Company's future financial performance.
- **Product risk** – The products Funtastic supplies to customers are subject to sales agreements with customers and must meet certain specifications. Despite controls and measures being in place, products may fall outside these specifications due to process failures, equipment malfunctions, or variability of inputs during the manufacturing and packaging processes, which could have a material adverse effect on the Company's reputation, financial condition and results of operations. Furthermore, Funtastic may be exposed to certain warranty and liability risks relating to defects in products. If any product it sells is defective or fails to meet the required specifications, the relevant customer may assert claims against the Company.
- **Occupational health and safety** – Funtastic's operations are subject to health and safety laws and regulations. Failure to comply with these laws and regulations could result in enforcement action by regulatory authorities which could result in monetary penalties for the Company. In addition, any significant regulatory body investigation or enforcement of health and safety requirements could damage the Company's reputation as a responsible corporate citizen and employer or could result in suspension or closure of operations.
- **Intellectual property** – There can be no assurances that the validity, ownership or authorised use of intellectual property (including technology, know-how, trademarks, designs and patents (both owned and licensed) relevant to Funtastic's business may not be challenged.

Appendix B – Key Risks (cont.)

Specific Risks (cont.)

- **Insurance** – It is not always possible to obtain insurance against all risks and Funtastic may decide not to insure against certain risks as a result of high premiums or other reasons. The occurrence of an event that is not fully covered, or covered at all, by insurance, could have a materially adverse effect on the Company's financial position.
- **Consumer demand** – Funtastic's operating and financial performance is dependent on consumer demand for its products. If the Company does not deliver products that appeal to consumers, or if there is a decline in consumer demand for its products, Funtastic's financial and operating performance could be materially adversely affected. If product input costs increase and Funtastic seeks to pass on such increases to consumers through higher prices, this could result in a reduction in consumer demand for Funtastic's products and a fall in revenue.
- **Retailer relationships** – Any adverse change in Funtastic's existing relationships with key distributors and retailers could have a material adverse impact on its operations and financial performance. Any action by distributors or retailers to reduce their inventories could also result in a fall in revenue for Funtastic. The Company notes that two of its key retailers are currently implementing revised strategic plans, and Funtastic is expanding its distribution base domestically and internationally to diversify this potential risk.
- **Product sourcing and licensing** – Funtastic relies on a range of parties for its product sourcing and licensing strategy. Any change in existing relationships (including termination of any key supply arrangements) or any change in terms or conditions of overseas suppliers and any change in the international political or economic environment may lead to material adverse changes to Funtastic's operational and financial performance.

Appendix B – Key Risks (cont.)

Specific Risks (cont.)

- **Damage to brands –** The reputation and value associated with Funtastic's and/or its licensors' brands could be adversely impacted by a range of factors and could have an adverse effect on the Company's future financial performance.
- **Interest rates and foreign exchange risks –** Adverse movements in exchange rates may impact product costs and price competitiveness which may impact the operations and financial performance of Funtastic. Also, adverse fluctuations in interest rates may impact Funtastic's financial performance.
- **Competition –** Funtastic competes in the toy, sporting and confectionary product segments in both Australia and overseas. The Company has a wide range of competitors including major international companies, and a large number of smaller companies. The actions of these competitors or changes in consumer preferences may adversely affect Funtastic's financial performance.
- **Litigation and disputes –** Legal and other disputes may arise from time to time in the ordinary course of the Company's operations. Any such dispute may impact profitability or affect the value of Funtastic's assets.

Appendix B – Key Risks (cont.)

General risks

- General economic factors - General economic conditions, globally or in one or more of the markets Funtastic operates in, may adversely affect the Company's financial performance. Recessionary or low growth economic conditions may significantly impact on business and financial performance.
- Australian law changes – Future changes in Australian law, including tax and employment laws, may affect Funtastic's financial performance. Further, changes in tax laws, or Funtastic's methods of calculation, may impact its tax assets and liabilities.

Appendix B – Key Risks (cont.)

Risks specific to the Shares

- Investment in shares – There are general risks associated with investments in equity capital such as Funtastic shares. The trading price of Funtastic shares may fluctuate with movements in equity capital markets in Australia and internationally. This may result in the market price for the New Shares being less or more than the Offer Price. Generally applicable factors that may affect the market price of shares include general movements in Australian and international stock markets, investor sentiment, Australian and international economic conditions and outlook, changes in interest rates and the rate of inflation, changes in government legislation and policies, in particular taxation laws, announcement of new technologies, geo-political instability, including international hostilities and acts of terrorism, demand for and supply of Funtastic securities, announcements and results of competitors, analyst reports and future issues of Funtastic securities. No assurances can be given that the New Shares will trade at or above the Offer Price. None of Funtastic, its directors or any other person guarantees the market performance of the New Shares. The operational and financial performance and position of Funtastic and Funtastic's share price may be adversely affected by a worsening of general economic conditions in Australia, as well as international market conditions and related factors. It is also possible that new risks might emerge as a result of Australian or global markets experiencing extreme stress or existing risk, and may manifest themselves in ways that are not currently foreseeable. The equity markets have in the past and may in the future be subject to significant volatility.

Appendix B – Key Risks (cont.)

Risks specific to the Shares (cont.)

- Sell down by substantial shareholders - There is a risk that Funtastic 's substantial shareholders (including directors) may seek to sell down their shareholdings in Funtastic. A significant sale of shares, or a perception that a sell-down may occur, could adversely affect the price of Funtastic's shares.
- Economic risk and external market risk - Various factors including political movements, stock market trends, changing customer preferences, interest rates, inflation levels, commodity prices, foreign exchange rates, industrial disruption, environmental impacts, international competition, taxation changes and legislative or regulatory changes, may have an adverse impact on the Company's operating costs, profit margins and share price. These factors are beyond the control of the Company and it cannot, to any degree of certainty, predict how they will impact on the Company. Prolonged deterioration in general economic conditions could potentially have an adverse impact on the Company and its operations and may adversely impact the trading price of Funtastic's shares.
- Liquidity – There can be no guarantee that an active market in Funtastic shares will develop or be sustained. It may therefore be difficult for investors to sell their shares at a price that is attractive to them or at all. There may be relatively few potential buyers and sellers on ASX at any time, and this may increase share price volatility and affect the prevailing market price at which shareholders are able to sell their shares. This may result in Eligible Shareholders receiving a market price for their New Shares that is less than the Offer Price.