



19 February 2009

The Manager
Company Announcements Office
Australian Stock Exchange Limited
Level 4, Stock Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir

ASX Announcement – Trading Update and Significant One-Off Write Offs

Attached is an announcement concerning a trading update and significant one-off write offs and provisions.

Yours faithfully

D J Berry
Company Secretary

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ASX ANNOUNCEMENT

Trading update and significant one-off write offs and provisions for year ended 31 December 2008

Trading Update

Funtastic expects that its full year Earnings Before Interest Tax and Amortisation (EBITA) before significant one off items (ie those the subject of this announcement) will be approximately \$28 million which is broadly in line with previous guidance.

Funtastic has finished the year with inventory levels of slow moving items being well down on 2007, thus providing an improved position for 2009. In addition, through stronger working capital management, year end 2008 net debt levels of \$67.0 million were well down on 2007 and the Company finished 2008 cash flow positive from operations.

The Board has conducted a business review going into 2009 and has put in place plans to deal with the possibility of softer consumer demand and higher input costs as a result of a weakening Australian dollar.

Given the possible loss of our Judius (ABC related) business, and expectations of softening consumer demand, the board has forecast EBITA for 2009 to be materially lower than the 2008 year.

ABC Learning Centres and related company write-offs

Funtastic Limited (Funtastic) has completed a review of its exposure to the ABC Group and has determined that it is appropriate to make a series of write-offs and provisions against the carrying value of those assets as a result of the appointment of receivers and external administrators to ABC Learning Centres and a number of its subsidiaries.

In addition, Funtastic has conducted a review of its exposure to other entities that traded with the ABC Group, notably 123 Global Holdings (Australasia) Pty Ltd, 123 Global Holdings (Japan) Pty Ltd and ABC Acquisitions Pty Ltd (together referred to as the 123 Group). Each of these Australian entities is now in external administration.

The Board of Funtastic has made a total provision of \$11.3 million for bad and doubtful debts of the ABC Group and 123 Group as at 31 December 2008.

Judius Pty Ltd - write-offs and provisions

Funtastic's subsidiary, Judius Pty Ltd (Judius), supplies educational toys and furniture to the ABC Group and also to the wider child care and primary school market in Australia and New Zealand. When Funtastic acquired Judius, it valued Judius' 20 year world wide exclusive purchasing contract with the ABC Group. In light of the external administration of the ABC Group, the Board has determined to write off the remainder of the unamortised balance of \$36.0 million less the deferred tax liability of \$10.8 million, resulting in a net non-cash intangible write off of \$25.2 million as at 31 December 2008.

The Board has also considered the ongoing viability of the Judius business in Australia and New Zealand. With the expected lower volume associated with the ABC Group external administration and the collapse of the 123 Group, the Board of Funtastic has decided to restructure the Judius business in Australia and New Zealand. One off restructure costs of \$4.2 million are expected to be incurred, requiring a provision for that amount at 31 December 2008.

Judius USA (My Paint Box Inc.) write offs and provisions

The Funtastic Board has considered the ongoing viability of Funtastic's USA operations, My Paintbox Inc (My Paintbox). My Paintbox was established solely to service exclusive purchasing obligations of ABC Group's subsidiary in the United States, Learning Care Group (LCG).

As announced on 21 August 2008, the transition to the agreed exclusive supply in the USA took substantially longer than expected. The sale of 60% of LCG to Morgan Stanley in July 2008 adversely impacted on the transition and LCG has notified Funtastic that it does not intend purchasing further goods from My Paintbox effective 30 January 2009. Funtastic is seeking legal advice on My Paintbox's position, however, the Board of Funtastic has determined that the USA Operations should nevertheless be closed. The closure of My Paintbox is expected to be completed during the second quarter of 2009. A provision of \$3.0 million at 31 December 2008 has been raised for the My Paintbox closure costs.

Goodwill impairment

Following a review of the carrying value of goodwill for the Softgoods business and the current trading conditions, the Board has determined that the carrying value is impaired by \$13.1 million. This is a non-cash charge.

In addition, given the New Zealand trading conditions, the Board has also conducted a review of the carrying value of Funtastic's NZ toy business and concluded that the carrying value is impaired by approximately \$1.3 million. This is a non-cash charge.

Other write offs

The Board has decided to recognize additional impairment charges on material contracts and other arrangements given likely sales over the life of those contracts. These include the matters the subject of Funtastic's announcement of 5 December 2008 concerning the MGA litigation in the USA.

These other impairment charges total \$13.7million. This is a non-cash item.

Total write offs and provisions - Summary

As a result of the above, these significant one off after tax charges to Funtastic's profit and loss account will total \$63.5 million, of which \$49.2 million will be non-cash charges.

The abovementioned impairment and other charges are subject to final audit confirmation.