



2020 Notice of Annual General Meeting

Friday, 23 October 2020 (Melbourne): Funtastic Limited (**ASX:FUN**), in accordance with the ASX Listing Rules, attaches its 2020 Notice of Annual General Meeting and accompanying documents (**Notice**).

The Meeting is to be held virtually on Monday, 23 November 2020 at 11:00am (Melbourne time).

The Notice and information about attending the virtual meeting is also available on FUN's website at www.funtastic.com.au.

Contact Details:

Bernie Brookes
Chairman
0438 101 422

Howard Abbey
Company Secretary, CFO, Interim CEO
0439 534 880

The release of this announcement was authorised by the Board.

About Funtastic Limited

Funtastic Limited is an Australian based listed company which operates in the Outdoor Lifestyle, Family Safety and Education, Fun Lifestyle and Confectionary markets, principally aimed at families with kids. In addition to distributing leading products throughout Australia for its key partners, Funtastic also owns a number of its own products and distributes these globally. Further information is available at www.funtastic.com.au.

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Notice of Annual General Meeting

Funtastic Limited ACN 063 886 199

Date: 23 November 2020
Time: 11:00am (Melbourne time)
Place: This Annual General Meeting (**Meeting**) will be conducted as a virtual Meeting, accessible online.

IMPORTANT INFORMATION REGARDING COVID-19: Due to COVID-19 pandemic, the Meeting will be held as a virtual Meeting. If you wish to virtually attend the Meeting, please pre-register in advance for the virtual Meeting here: https://us02web.zoom.us/webinar/register/WN_3nc0iQONQRS6YjdDtRHr3g

Shareholders are also strongly encouraged to lodge their completed Proxy Forms in accordance with the instructions in this Notice.

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report, which is attached to this Notice as Annexure A. The Independent Expert has concluded that the Proposed Transactions are not fair but reasonable to Non-Associated Shareholders for the reasons set out in its report.

Important Notes: Shareholders should read this Notice and the Independent Expert's Report in full.

This Notice does not take into account the individual investment objectives, financial situation or particular needs of any person. If you are in any doubt about the action you should take, please consult your stockbroker, solicitor, accountant or other professional adviser without delay.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (**Meeting**) of Shareholders of Funtastic Limited ACN 063 886 199 (**Company**) will be held virtually on an online platform at 11:00am (Melbourne time) on Monday, 23 November 2020 to consider and vote on the Resolutions set out below.

The Explanatory Notes, which accompany and form part of this Notice, describe the matters to be considered at the Meeting. Terms used in this Notice and the accompanying Explanatory Notes are defined in the Glossary on page 48 of the Explanatory Notes.

Important Information for Shareholders about the Meeting

IMPORTANT NOTICE REGARDING ATTENDANCE, COVID-19 AND THE VIRTUAL MEETING

Due to the global COVID-19 pandemic, the Company has taken steps to ensure all Shareholders can participate in the Meeting virtually online while maintaining their health and safety, and abiding by Federal and State Government requirements and guidelines regarding COVID-19. Shareholders will not be able to attend the Meeting in person.

However, Shareholders do not need to attend the Meeting physically in order to cast their votes or to participate in the Meeting. Accordingly, the Company strongly encourages all Shareholders who wish to vote to do so by:

- (1) participating in the virtual Meeting and casting a vote online;
- (2) appointing the Chair as their proxy (and where desired, direct the Chair how to vote on a Resolution) by completing and returning the Proxy Form; or
- (3) lodging their votes online at <https://investor.automic.com.au/#/loginsah>.

Further details on the virtual Meeting and appointment of proxies are set out below.

Virtual Meeting

If you are a Shareholder and wish to virtually attend the Meeting (which will be broadcast as a live webinar) please **pre-register** in advance of the virtual Meeting here:

https://us02web.zoom.us/webinar/register/WN_3nc0iQONQRS6YjdDtRHr3g

After registering, you will receive a confirmation containing information on how to attend the virtual Meeting on the day of the Meeting.

Shareholders will be able to vote and ask questions at the virtual Meeting.

Shareholders are also encouraged to submit questions in advance of the Meeting to the Company. Questions must be submitted to AGM@funtastic.com.au at least 48 hours before the Meeting.

The Company will also provide Shareholders with an opportunity to ask questions during the Meeting in respect of the formal items of business as well as general questions in relation to the Company and its business.

Business of Meeting

Overview

Item 1 – Financial Statements and Reports

Item 2 – Remuneration Report

Resolution 1: Approval of the Remuneration Report

Item 3 – Re-election of Directors

Resolution 2: Re-election of Director, Ms Anderson

Resolution 3: Re-election of Director, Mr Tripodi

Item 4 – Funtastic Employee Incentive Plan

Resolution 4: Approval of the Funtastic Employee Incentive Plan

Item 5 – Grant of Share Appreciation Rights to Directors

Resolution 5: Approval of the grant of Share Appreciation Rights to Ms Anderson

Resolution 6: Approval of the grant of Share Appreciation Rights to Mr Tripodi

Item 6 – Additional 10% Placement Capacity

Resolution 7: Approval of Additional 10% Placement Capacity

Item 7 – Proposed Transactions

Resolution 8: Approval of issue of Shares to the Sellers under the Share Sale Deed

Resolution 9: Approval of issue of Shares under the Placement

Resolution 10: Approval of issue of Shares under the Loan Conversion and Repayment Agreement

Resolution 11: Approval of issue of Shares to TRU Kids, Inc.

Resolution 12: Approval of the grant of Options to Mr Mittoni

Resolution 13: Approval of the grant of Options to Mr Moore

Resolution 14: Approval of the grant of Deferred Share Awards to Mr Moore

Resolution 15: Approval of the issue of Shares to Mr Moore under the Placement

Ordinary Business

Item 1 – Financial Statements and Reports

To receive and consider the following reports for the year ending 31 July 2020.

- (a) the financial statements;
- (b) the Directors' report; and
- (c) the auditor's report,

Further information in relation to Item 1 is set out in Section 3 of the Explanatory Notes.

Item 2 – Remuneration Report

Resolution 1: Approval of the Remuneration Report

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

'That, in accordance with section 250R of the Corporations Act, the Company adopts the Remuneration Report as set out in the Directors' report of the Annual Report, for the year ending 31 July 2020.'

A vote on this Resolution is advisory only and will not bind the Company or the Directors.

Further information in relation to Resolution 1 is set out in Section 4 of the Explanatory Notes.

Voting Exclusion Statement for Resolution 1

The Company will disregard any votes cast in favour of this Resolution by or on behalf of a member of the Company's Key Management Personnel and their closely related parties. However, this does not apply to a vote cast in favour of this Resolution by:

- a person as proxy for a person who is entitled to vote on this Resolution, in accordance with the directions given to the proxy or attorney to vote on this Resolution in that way; or
- the Chair as proxy for a person who is entitled to vote on this Resolution, in accordance with a direction given to the Chair which:
 - does not specify the way the proxy is to vote on this Resolution; and
 - expressly authorises the Chair to vote on this Resolution even though this Resolution is connected with the remuneration of the Company's Key Management Personnel.

Item 3 – Re-election of Directors

Resolution 2: Re-election of Director, Ms Anderson

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

'That Ms Nicki Anderson being a Director since 25 October 2018 be re-elected as a Director of the Company in accordance with the Company's constitution.'

Further information in relation to Resolution 2 is set out in Section 5 of the Explanatory Notes.

Resolution 3: Re-election of Director, Mr Tripodi

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

'That Mr John Anthony Tripodi, being a Director since 25 October 2018 be re-elected as a Director of the Company in accordance with the Company's constitution.'

Further information in relation to Resolution 3 is set out in Section 5 of the Explanatory Notes.

Special Business

Item 4 – Funtastic Employee Incentive Plan

Resolution 4: Approval of the Funtastic Employee Incentive Plan

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

‘That, for the purposes of Listing Rule 7.2 (exception 13) and for all other purposes, the Company’s Employee Incentive Plan (a summary of which is set out in the Explanatory Notes) and all issues of equity securities under the Employee Incentive Plan, be approved.’

Further information in relation to Resolution 4 is set out in Section 6 of the Explanatory Notes.

Voting exclusion statement for Resolution 4

The Company will disregard any votes cast in favour of this Resolution by or on behalf of any person who is eligible to participate in the Plan or their Associates.

However, this does not apply to a vote cast in favour of this Resolution by:

- a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with the directions given to the proxy or attorney to vote on this Resolution in that way; or
- the Chair as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the Chair to vote on this Resolution as the Chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on this Resolution; and
 - the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Item 5 – Grant of Share Appreciation Rights to Directors

Resolution 5: Approval of the grant of Share Appreciation Rights to Ms Anderson

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

‘That, subject to Resolution 2 being passed, for the purposes of Listing Rule 10.14 and for all other purposes, approval is given for the issue of Share Appreciation Rights (and any subsequent issue of Shares upon vesting of those Share Appreciation Rights) to Ms Anderson (or her nominee), under the Company’s Employee Incentive Plan on the terms set out in the Explanatory Notes.’

Resolution 5 is subject to the passing of Resolution 2.

Further information in relation to Resolution 5 is set out in Section 7 of the Explanatory Notes.

Voting exclusion statement for Resolution 5

The Company will disregard any votes cast in favour of this Resolution by or on behalf of:

- Ms Anderson (or her nominee) and her Associates; and
- any other person referred to in Listing Rules 10.14.1, 10.14.2 or 10.14.3 who is eligible to participate in the Plan and any Associate of those persons.

However, this does not apply to a vote cast in favour of this Resolution by:

- a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with the directions given to the proxy or attorney to vote on this Resolution in that way; or

- the Chair as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the Chair to vote on this Resolution as the Chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on this Resolution; and
 - the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 6: Approval of the grant of Share Appreciation Rights to Mr Tripodi

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

“That, subject to Resolution 3 being passed, for the purposes of Listing Rule 10.14 and for all other purposes, approval is given for the issue of Share Appreciation Rights (and any subsequent issue of Shares upon vesting of those share appreciation rights) to Mr Tripodi (or his nominee), under the Company’s Employee Incentive Plan on the terms set out in the Explanatory Notes.

Resolution 6 is subject to the passing of Resolution 3.

Further information in relation to Resolution 6 is set out in Section 7 of the Explanatory Notes.

Voting exclusion statement for Resolution 6

The Company will disregard any votes cast in favour of this Resolution by or on behalf of:

- Mr Tripodi (or his nominee) and his Associates; and
- any other person referred to in Listing Rules 10.14.1, 10.14.2 or 10.14.3 who is eligible to participate in the Plan and any Associate of those persons.

However, this does not apply to a vote cast in favour of this Resolution by:

- a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with the directions given to the proxy or attorney to vote on this Resolution in that way; or
- the Chair as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the Chair to vote on this Resolution as the Chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on this Resolution; and
 - the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Item 6 – Additional 10% Placement Capacity

Resolution 7: Approval of Additional 10% Placement Capacity

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

‘That, for the purposes of Listing Rule 7.1A and for all other purposes, approval is given for the issue of equity securities of up to 10% of the Company’s share capital calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 on the terms and conditions set out in the Explanatory Notes.’

Further information in relation to Resolution 7 is set out in Section 8 of the Explanatory Notes.

Voting Exclusion statement for Resolution 7

At the time of dispatching this Notice, the Company is not proposing to make an issue of equity securities under ASX Listing Rule 7.1A.2. However, if at the time the approval is sought the Company does propose to make an issue of equity securities under ASX Listing Rule 7.1A.2, the Company will disregard any votes cast in favour of this Resolution by or on behalf of any person who is expected to participate in, or who will obtain a material benefit as a result of the proposed issue (except a benefit solely by reason of being a holder of ordinary securities), or any of their Associates.

However, the Company need not disregard a vote cast in favour of this Resolution if it is cast by:

- a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with the directions given to the proxy or attorney to vote on this Resolution in that way; or
- the Chair as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the Chair to vote on this Resolution as the Chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on this Resolution; and
 - the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Item 7 – Proposed Transactions

Resolution 8: Approval of issue of Shares to the Sellers under the Share Sale Deed

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

‘That, subject to all other Transaction Resolutions being passed, for the purposes of Chapter 2E and item 7 of section 611 of the Corporations Act, and for all other purposes, approval is given for the issue of 291,205,818 Shares to the Sellers of Hobby Warehouse Pty Ltd, Mittoni Pty Ltd and Toys R Us Licensee Pty Ltd, on the terms set out in the Explanatory Notes, which may result in the Sellers’ (being Mr Louis Mittoni and his Associates) Voting Power in the Company increasing from 0% to up to 34.43%.’

Independent Expert’s Report: Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of the Shareholder approval required for this Resolution under item 7 of section 611 of the Corporations Act. The Independent Expert’s Report is annexed to this document. The Independent Expert’s Report comments on the fairness and reasonableness of the Proposed Transactions (including the transactions the subject of this Resolution) to the Non-Associated Shareholders in the Company. The Independent Expert has concluded that the Proposed Transactions are not fair but reasonable to Non-Associated Shareholders.

Resolution 8 is subject to the passing of Resolutions 9 to 13.

Further information in relation to Resolution 8 is set out in Sections 9 and 10 of the Explanatory Notes.

Voting Exclusion Statement for Resolution 8

The Company will disregard any votes cast in favour of this Resolution by or on behalf of:

- the person proposing to make the acquisition (in this case of Shares in the Company) and their Associates; or
- the persons (if any) from whom the acquisition is to be made and their Associates.

Accordingly, the Company will disregard any votes cast in favour of this Resolution by the Sellers and their Associates.

Resolution 9: Approval of issue of Shares under the Placement

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

*‘That, subject to all other Transaction Resolutions being passed, for the purpose of Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 258,928,571 Shares at an issue price of 11.2 cents per Share to raise up to \$29 million under a placement to professional and sophisticated investors (**Placement**) on the terms set out in the Explanatory Notes.’*

Resolution 9 is subject to the passing of Resolutions 8, 10, 11, 12 and 13.

Further information in relation to Resolution 9 is set out in Sections 9 and 11 of the Explanatory Notes.

Voting Exclusion Statement for Resolution 9

The Company will disregard any votes cast in favour of this Resolution by or on behalf of:

- any person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the entity); and
- any Associate of those persons.

However, this does not apply to a vote cast in favour of this Resolution by:

- a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with the directions given to the proxy or attorney to vote on this Resolution in that way; or
- the Chair as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the Chair to vote on this Resolution as the Chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on this Resolution; and
 - the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 10: Approval of issue of Shares under the Loan Conversion and Repayment Agreement

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

*‘That, subject to all other Transaction Resolutions being passed, for the purpose of Listing Rules 7.1 and 10.1 and for all other purposes, approval is given for the Company to issue up to 53,571,429 Shares at an issue price of 11.2 cents per Share to Jaszac Investments Pty Ltd (**Jaszac**), as a result of the conversion of part of the Loan into Shares under the Loan Conversion and Repayment Agreement, on the terms set out in the Explanatory Notes.’*

Independent Expert’s Report: Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of the Shareholder approval required for this Resolution under Listing Rule 10.1. The Independent Expert’s Report is annexed to this document. The Independent Expert’s Report comments on the fairness and reasonableness of the Proposed Transactions (including the transactions the subject of this Resolution) to the Non-Associated Shareholders in the Company. The Independent Expert has concluded that the Proposed Transactions are not fair but reasonable to Non-Associated Shareholders.

Resolution 10 is subject to the passing of Resolutions 8, 9, 11, 12 and 13.

Further information in relation to Resolution 10 is set out in Section 9 and 12 of the Explanatory Notes.

Voting Exclusion Statement for Resolution 10

The Company will disregard any votes cast in favour of this Resolution by or on behalf of:

- the Company, Jaszac Investments Pty Ltd and any person who will obtain a material benefit as a result of the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the entity); and
- any Associate of those persons.

However, this does not apply to a vote cast in favour of this Resolution by:

- a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with the directions given to the proxy or attorney to vote on this Resolution in that way; or
- the Chair as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the Chair to vote on this Resolution as the Chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on this Resolution; and
 - the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 11: Approval of issue of Shares to TRU Kids, Inc.

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

'That, subject to all other Transaction Resolutions being passed, for the purposes of Chapter 2E of the Corporations Act and Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue 1,223,092 Shares at an issue price of 11.2 cents per share to TRU Kids, Inc. on the terms set out in the Explanatory Notes.'

Resolution 11 is subject to the passing of Resolutions 8, 9, 10, 12 and 13.

Further information in relation to Resolution 11 is set out in Section 9 and 13 of the Explanatory Notes.

Voting exclusion statement for Resolution 11

The Company will disregard any votes cast in favour of this Resolution by or on behalf of TRU Kids, Inc. (or its nominee) and any other person who will participate in or obtain a material benefit from the proposed issue and any of their Associates.

However, this does not apply to a vote cast in favour of this Resolution by:

- a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with the directions given to the proxy or attorney to vote on this Resolution in that way; or
- the Chair as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the Chair to vote on this Resolution as the Chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on this Resolution; and
 - the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 12: Approval of the grant of Options to Mr Mittoni

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

'That, subject to all other Transaction Resolutions being passed, for the purposes of item 7 of section 611 of the Corporations Act and Listing Rule 10.14 and for all other purposes, approval is given for the grant of Options (and any subsequent issue of Shares upon exercise of those Options) to Mr Mittoni (or his nominee), under the Company's Employee Incentive Plan on the terms set out in the Explanatory Notes.'

Independent Expert's Report: Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of the Shareholder approval required for this Resolution under item 7 of section 611 of the Corporations Act. The Independent Expert's Report is annexed to this document. The Independent Expert's Report comments on the fairness and reasonableness of the Proposed Transactions (including the transactions the subject of this Resolution) to the Non-Associated Shareholders in the Company. The Independent Expert has concluded that the Proposed Transactions are not fair but reasonable to Non-Associated Shareholders.

Resolution 12 is subject to the passing of Resolutions 8, 9, 10, 11 and 13.

Further information in relation to Resolution 12 is set out in Sections 9 and 14 of the Explanatory Notes.

Voting exclusion statement for Resolution 12

The Company will disregard any votes cast in favour of this Resolution by or on behalf of:

- Mr Mittoni (or his nominee) and his Associates;
- any other person referred to in Listing Rules 10.14.1, 10.14.2 or 10.14.3 who is eligible to participate in the Plan and any Associate of those persons; and
- the person from whom the acquisition is to be made (i.e. the Company) and their Associates.

However, this does not apply to a vote cast in favour of this Resolution by:

- a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with the directions given to the proxy or attorney to vote on this Resolution in that way; or
- the Chair as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the Chair to vote on this Resolution as the Chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on this Resolution; and
 - the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 13: Approval of the grant of Options to Mr Moore

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

'That, subject to all other Transaction Resolutions being passed, for the purposes of Listing Rule 10.14 and for all other purposes, approval is given for the grant of Options (and any subsequent issue of Shares upon exercise of those Options) to Mr Moore (or his nominee), under the Company's Employee Incentive Plan on the terms set out in the Explanatory Notes.'

Resolution 13 is subject to the passing of Resolutions 8 to 12.

Further information in relation to Resolution 13 is set out in Sections 9 and 14 of the Explanatory Notes.

Voting exclusion statement for Resolution 13

The Company will disregard any votes cast in favour of this Resolution by or on behalf of:

- Mr Moore (or his nominee) and his Associates; and
- any other person referred to in Listing Rules 10.14.1, 10.14.2 or 10.14.3 who is eligible to participate in the Plan and any Associate of those persons.

However, this does not apply to a vote cast in favour of this Resolution by:

- a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with the directions given to the proxy or attorney to vote on this Resolution in that way; or
- the Chair as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the Chair to vote on this Resolution as the Chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on this Resolution; and
 - the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 14: Approval of the grant of Deferred Share Awards to Mr Moore

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

‘That, subject to all other Transaction Resolutions being passed, for the purposes of Listing Rule 10.14 and for all other purposes, approval is given for the issue of Deferred Share Awards (and any subsequent issue of Shares upon vesting of those Deferred Share Awards) to Mr Moore, under the Company’s Employee Incentive Plan on the terms set out in the Explanatory Notes.’

Resolution 14 is subject to the passing of Resolutions 8 to 13.

Further information in relation to Resolution 14 is set out in Sections 9 and 15 of the Explanatory Notes.

Voting exclusion statement for Resolution 14

The Company will disregard any votes cast in favour of this Resolution by or on behalf of:

- Mr Moore (or his nominee) and his Associates; and
- any other person referred to in Listing Rules 10.14.1, 10.14.2 or 10.14.3 who is eligible to participate in the Plan and any Associate of those persons.

However, this does not apply to a vote cast in favour of this Resolution by:

- a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with the directions given to the proxy or attorney to vote on this Resolution in that way; or
- the Chair as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the Chair to vote on this Resolution as the Chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on this Resolution; and
 - the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Resolution 15: Approval of the issue of Shares to Mr Moore under the Placement

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

‘That, subject to all other Transaction Resolutions being passed, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the issue of 2,232,143 Shares at an issue price of 11.2 cents per Share under the Placement to Mr Moore, on the terms set out in the Explanatory Notes.’

Resolution 15 is subject to the passing of Resolutions 8 to 13.

Further information in relation to Resolution 15 is set out in Sections 9 and 16 of the Explanatory Notes.

Voting exclusion statement for Resolution 15

The Company will disregard any votes cast in favour of this Resolution by or on behalf of:

- Mr Moore (or his nominee); and
- any person who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the entity); or

any of their Associates.

However, this does not apply to a vote cast in favour of this Resolution by:

- a person as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with the directions given to the proxy or attorney to vote on this Resolution in that way; or
- the Chair as proxy or attorney for a person who is entitled to vote on this Resolution, in accordance with a direction given to the Chair to vote on this Resolution as the Chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting, on this Resolution; and
 - the holder votes on this Resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

Voting and Entitlements

Entitlement to vote

The Directors have determined that for the purpose of determining entitlements to vote at the Meeting, Shares will be taken to be held by the persons who are the registered holders at 7:00pm (Melbourne time) on Sunday, 22 November 2020. Accordingly, Shares registered after that time will be disregarded in determining entitlements to vote at the Meeting.

Proxies, Power of Attorney and Corporate Representatives

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.
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. A proxy need not be a Shareholder of the Company.
4. In order to lodge a valid vote, Shareholders must ensure the electronic proxy appointment (and the power of attorney or other authority under which it is signed, if any) is received by Atomic Group (see below), no later than 11:00am (Melbourne time) on Saturday, 21 November 2020.
5. Shareholders can arrange to receive a hard copy of the Proxy Form by contacting Atomic Group on 1300 288 664 (within Australia) or +61 2 9698 5414 (outside Australia) and follow the instructions on the form. For the vote to be valid the Proxy Form must be received by Atomic Group, no later than 11:00am (Melbourne time) on Saturday, 21 November 2020.
6. Proxies given by corporate Shareholders must be executed in accordance with their constitutions or signed by a duly authorised officer (or officers) or attorney.
7. A proxy may decide whether to vote on any Resolution 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.
8. If a Shareholder appoints the Chair 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.
9. 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.
10. 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 pursuant to section 250D of the Corporations Act. 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.

Your vote is important

The business of the Meeting affects your shareholding and your vote is important.

Voting by proxy

To vote by proxy, please use one of the following methods:

Online	Lodge the Proxy Form online at https://investor.automic.com.au/#/loginsah by following the instructions: Login to the Automic website using the holding details as shown on the Proxy Form. Click on 'View Meetings' – 'Vote'. To use the online lodgement facility, Shareholders will need their holder number (Securityholder Reference Number (SRN) or Holder Identification Number (HIN)) as shown on the front of the Proxy Form.
By post	Automic, GPO Box 5193, Sydney NSW 2001
By hand	Automic, Level 5, 126 Phillip Street, Sydney NSW 2000

Your Proxy Form must be received not later than 48 hours before the commencement of the Meeting. **Proxy Forms received later than this time will be invalid.**

Voting virtually at the Meeting

Shareholders who wish to vote virtually on the day of the Meeting will need to login to the Automic website (<https://investor.automic.com.au/#/home>) with their username and password.

Shareholders who do not have an account with Automic are strongly encouraged to **register for an account as soon as possible and well in advance of the Meeting** to avoid any delays on the day of the Meeting.

How do I create an account with Automic?

To create an account with Automic, please go to the Automic website:

<https://investor.automic.com.au/#/home>, click on 'register' and follow the steps. Shareholders will require their holder number (Securityholder Reference Number (SRN) or Holder Identification Number (HIN)) to create an account with Automic.

I have an account with Automic, what are the next steps?

Shareholders who have an existing account with Automic (Note: with a username and password) are advised to take the following steps to attend and vote virtually on the day of the Meeting:

1. **(Login)** Login to the Automic website (<https://investor.automic.com.au/#/home>) using your username and password.
2. **(Registration on the day)** If registration for the virtual Meeting is open, click on 'Meeting open for registration' and follow the steps.
3. **(Live voting on the day)** If live voting for the virtual Meeting is open, click on 'Meeting open for voting' and follow the steps.

Directors' Recommendations

Remuneration Report

The Directors unanimously recommend the approval of Resolution 1 and encourage Shareholders to vote in favour of Resolution 1.

Re-Election of Directors – Ms Anderson and Mr Tripodi

For the reasons given in Section 5 of the Explanatory Notes, the Directors unanimously recommend the approval of Resolutions 2 and 3 and encourage Shareholders to vote in favour of those Resolutions, other than Ms Anderson and Mr Tripodi in respect of their respective appointments who give no recommendation on the particular Resolution applying to them.

Employee Incentive Plan

Given the interests of the Directors in relation to the Company's Employee Incentive Plan, the Board as a whole makes no recommendation as to Resolution 4.

Grant of Share Appreciation Rights to Directors – Ms Anderson and Mr Tripodi

For the reasons given in Section 7 of the Explanatory Notes, the Directors unanimously recommend the approval of Resolutions 5 and 6 and encourage Shareholders to vote in favour of Resolutions 5 and 6, other than Ms Anderson and Mr Tripodi in respect of their respective grants, who give no recommendation on the particular Resolution applying to them.

Additional 10% Placement Capacity

For the reasons given in Section 8 of the Explanatory Notes, the Directors unanimously recommend the approval of Resolution 7 and encourage Shareholders to vote in favour of Resolution 7.

Proposed Transactions

For the reasons given in Sections 9 to 14 of the Explanatory Notes, the Directors unanimously recommend the approval of Resolutions 8 to 13 (**Transaction Resolutions**) and encourage Shareholders to vote in favour of them.

In addition, for the reasons given in Section 15 of the Explanatory Notes, the Directors unanimously recommend the approval of Resolution 14 and encourage Shareholders to vote in favour of that Resolution.

Finally, for the reasons given in Section 16 of the Explanatory Notes, the Directors unanimously recommend the approval of Resolution 15 and encourage Shareholders to vote in favour of that Resolution.

The Board advises that the Directors, where entitled to vote, each intend to vote all Shares held or controlled by them in favour of the Resolutions in respect of which they are providing a recommendation as noted above.

By Order of the Board.



Nicki Anderson

Director and Chair of the Remuneration & Nomination Committee

23 October 2020

Explanatory Notes

A INTRODUCTION AND BACKGROUND

1 INTRODUCTION

1.1 Important Information

These Explanatory Notes have been prepared for the information of Shareholders in connection with the business to be conducted at the Meeting to be held virtually on an online platform on Monday, 23 November 2020 at 11:00am (Melbourne time).

The purpose of these Explanatory Notes is to provide Shareholders with information known to the Company that is material to a decision on how to vote on the Resolutions in the accompanying Notice.

Resolution 1 relates to the Shareholder approval of the Company's Remuneration Report. A vote on Resolution 1 is advisory only and will not bind the Company or the Directors.

Resolutions 2 and 3 seek Shareholder approval for the re-appointment of Ms Anderson and Mr Tripodi as Directors of the Company. Resolutions 2 and 3 are not conditional on the approval of any other Resolutions.

Resolution 4 relates to Shareholder approval of the Company's Employee Incentive Plan (**Plan**). Resolution 4 is not conditional on the approval of any other Resolutions.

Resolutions 5 and 6 relate to the proposed issue of Share Appreciation Awards under the Plan to two of the Directors of the Company, Ms Anderson and Mr Tripodi. They are conditional on the approval of Resolutions 2 and 3 respectively.

Resolution 7 seeks Shareholder approval by way of a special resolution for the Company to have the ability to issue equity securities under the 10% Placement Capacity. It is not conditional on the approval of any other Resolutions.

Resolutions 8, 9, 10, 11, 12 and 13 (the **Transaction Resolutions**) relate to the Proposed Transactions and are inter-conditional, which means that if any of the Transaction Resolutions are not approved, then the Proposed Transactions will not proceed.

Resolution 14 relates to the proposed issue of Deferred Share Rights under the Plan to a proposed Director of the Company, Mr Moore. Resolution 14 is conditional on the approval of the Transaction Resolutions.

Resolution 15 relates to the proposed issue of Shares under the Placement to a proposed Director of the Company, Mr Moore. Resolution 15 is conditional on the approval of the Transaction Resolutions.

The Independent Expert's Report, which includes the Independent Expert's opinion that the Proposed Transactions are not fair but reasonable to Non-Associated Shareholders of the Company is attached as **Annexure A** and forms part of and should be read together with these Explanatory Notes.

The Notice and these Explanatory Notes should be read in their entirety. If Shareholders are in doubt as to how to vote, they should seek advice from a professional advisor prior to voting.

1.2 Interpretation

All capitalised terms used in these Explanatory Notes have the meanings set out in the Glossary located on page 48 or as otherwise defined in these Explanatory Notes. References to "\$" in the Notice and Explanatory Notes are references to Australian currency unless otherwise stated. References to time in the Notice and Explanatory Notes are references to time in Melbourne, Victoria.

1.3 Voting Exclusion Statements

Certain voting restrictions apply to the Resolutions as detailed beneath the applicable Resolutions in the Notice.

2 BACKGROUND AND APPLICABLE LISTING RULES AND PROVISIONS OF THE CORPORATIONS ACT

2.1 Introduction

There are a number of approvals and requirements under the Listing Rules and Corporations Act that are relevant to the Resolutions set out in the Notice. To avoid lengthy duplication throughout these Explanatory Notes, this Section 2 sets out a summary of the provisions that are referred to in the Notice and these Explanatory Notes.

2.2 Listing Rule 7.1 – issues exceeding 15% of capital

Listing Rule 7.1 provides that, subject to certain exceptions, prior approval of shareholders is required for the issue of equity securities if the equity securities will, when aggregated with the equity securities issued by a company during the previous 12 months, exceed 15% of the number of ordinary securities on issue at the commencement of that 12 month period.

Any issue of Shares that is approved by Shareholders at the Meeting for the purposes of Listing Rule 7.1 will not use any of the Company's 15% placement capacity under Listing Rule 7.1.

2.3 Listing Rule 7.1A – additional 10% of capital

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 of up to an additional 10% of its issued capital over a period of up to 12 months after its annual general meeting (**10% Placement Capacity**). The 10% Placement Capacity is in addition to the capacity to issue 15% of its issued capital over a 12-month period without shareholder approval under Listing Rule 7.1.

The Company is an eligible entity and is seeking Shareholder approval at the Meeting for the additional 10% Placement Capacity under Listing Rule 7.1A.

2.4 Listing Rule 7.2 – exceptions to Listing Rules 7.1 and 7.1A

Exception 13 of Listing Rule 7.2 allows a company to issue equity securities without specific shareholder approval and without reducing the 15% capacity under Listing Rule 7.1 or the 10% Placement Capacity under Listing Rule 7.1A, where shareholders have approved the issue of equity securities under an employee incentive scheme (like the Plan) as an exception to Listing Rules 7.1 and 7.1A, within three years prior to the date of issue of the relevant equity securities (**Exception 13**).

2.5 Listing Rule 10.1 – approval required for certain acquisitions and disposals

Listing Rule 10.1 provides that an entity must ensure that neither it, nor any of its child entities, acquires a Substantial Asset from, or disposes of a Substantial Asset to, amongst other persons:

- (a) a Related Party (see Section 2.6);
 - (b) a Substantial (10%+) Holder of the entity; or
 - (c) an Associate of a substantial holder of the entity,
- without the prior approval of shareholders.

For the purposes of Listing Rule 10.1:

- (a) **(Substantial Asset)** an asset is a Substantial Asset if its value, or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to ASX under the Listing Rules; and
- (b) **(Substantial (10%+) Holder)** a person or entity is a Substantial (10%+) Holder if it has Voting Power (either directly or through its Associates), or had Voting Power at any time in the six (6) months before the transaction, in at least 10% of the total votes attaching to the voting shares of the entity.

2.6 Listing Rules 10.11 and 10.14

Listing Rule 10.11 states that a company must not issue, or agree to issue, equity securities (which includes options to acquire shares and share appreciation rights) to a Related Party without the approval of shareholders under that rule, unless an exception applies.

For the purposes of the Listing Rules, a **Related Party** of a public company includes:

- (a) any person or entity that controls the public company;
- (b) a director of the public company or of an entity that controls the public company (and their spouses, parents and children);
- (c) any person or entity that is controlled by a person or entity which is otherwise a Related Party;
- (d) any person or entity for which there are reasonable grounds to believe that the person or entity is likely to become a Related Party of the public company; or
- (e) any person or entity acting in concert with a person or entity that is otherwise a Related Party of the public company.

One of the exceptions to Listing Rule 10.11 is where the relevant equity securities are issued with shareholder approval under Listing Rule 10.14.

Listing Rule 10.14 requires a company to obtain shareholder approval for the issue of equity securities to directors of the company under an employee incentive scheme.

2.7 Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act prohibits a public company from giving a Financial Benefit to a Related Party of the public company unless providing the benefit falls within a prescribed exception to the general prohibition. Relevantly, there is an exception if the company first obtains the approval of its shareholders in a general meeting in circumstances where certain requirements specified in Chapter 2E in relation to the convening of that meeting have been met.

Whilst similar to the definition of "Related Party" in the Listing Rules, a **Related Party** for the purposes of Chapter 2E includes:

- (a) any person or entity that controls (or is reasonably likely to control) the public company;
- (b) a director (or a relevantly proposed director) of a public company or of any entity that controls the public company (and their spouses, parents and children);
- (c) any person or entity that is controlled by the person or entity which is otherwise a Related Party;
- (d) any person or entity for which there are reasonable grounds to believe that a person or entity is likely to become a Related Party of the public company; or

- (e) any person or entity that acts in concert with a Related Party of the public company on the understanding that the Related Party will receive a Financial Benefit if the public company gives that person or entity a Financial Benefit (see section 228 of the Corporations Act).

As noted above, the definition of a Related Party for the purposes of the Corporations Act is similar to that under the Listing Rules. A key difference is that the Corporations Act concept of being a Related Party by virtue of “acting in concert” is narrower than the Listing Rules concept. Under the Corporations Act a person or entity “acting in concert” with a Related Party will only be a “Related Party” if it does so “on the understanding that the Related Party will receive a Financial Benefit if the public company gives that person or entity a Financial Benefit.”

The term **Financial Benefit** used in Chapter 2E has a very wide meaning. It includes the public company paying money or issuing securities to a Related Party. In determining whether or not a Financial Benefit is being given, it is necessary to look to the economic and commercial substance and effect of what the public company is doing (rather than just the legal form). Any consideration which is given or paid for the Financial Benefit is to be disregarded, even if it is full or adequate.

Control, for the purposes of Chapter 2E, is defined in section 50AA. Under that definition an entity controls a second entity if the first entity has the capacity to determine the outcome of decisions about the second entity’s financial and operating policies.

2.8 Item 7 of section 611 of the Corporations Act

Under section 606(1) of the Corporations Act, unless certain exemptions apply, a person must not acquire a Relevant Interest in the issued voting shares of a listed company if, as a result of that transaction, that person’s (or another person’s) Voting Power in the company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% and below 90%.

2.8.1 Voting Power

The **Voting Power** of a person in a company is determined in accordance with section 610 of the Corporations Act. The calculation of a person’s Voting Power in a company involves determining the voting shares in the company in which the person and the person’s Associates have a Relevant Interest.

2.8.2 Relevant Interests

Under section 608(1) of the Corporations Act, a person has a **Relevant Interest** in securities if they are the holder of the securities, have the power to exercise, or control the exercise of, a right to vote attached to the securities, or have power to dispose of, or control the exercise of a power to dispose of, the securities.

2.8.3 Associate

For the purposes of determining Voting Power in relation to a company under the Corporations Act, a person (**second person**) is an **Associate** of the other person (**first person**) if:

- (a) the first person is a body corporate and the second person is:
 - (i) a body corporate the first person controls;
 - (ii) a body corporate that controls the first person; or
 - (iii) a body corporate that is controlled by an entity that controls the first person;

- (b) the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or
- (c) the second person is a person with whom the first person is acting or proposes to act, in concert in relation to the company's affairs.

Determining whether persons are "Associates" is a matter of fact. That means the specific factual circumstances must be considered to determine whether a person controls or influences the composition of a company's board or the conduct of a company's business affairs, or acts in concert with a person in relation to a company's business affairs.

2.8.4 Item 7 Exception

Item 7 of section 611 of the Corporations Act provides an exception to the prohibition in section 606(1) of the Corporations Act. The exception provides that a person may acquire Relevant Interests in a company's voting shares that would otherwise be a breach of section 606(1) of the Corporations Act if the shareholders of the company approve the transaction, provided that:

- (a) no votes are cast in favour of the resolution by the acquirer proposing to make the acquisition or their Associates; and
- (b) shareholders are given all information known to the acquirer or the company that is material to the decision on how to vote.

ASIC Regulatory Guide 74 (Acquisitions Approved by Members) specifies certain additional requirements where a Company seeks shareholder approval under item 7 of section 611 of the Corporations Act.

B ORDINARY BUSINESS

3 Financial Statements and Reports

The Corporations Act requires the Company's financial report (which includes the financial statements and Directors' declaration), the Directors' report and the auditor's report, to be laid before the Meeting. However, there is no requirement either in the Corporations Act or the Company's constitution for Shareholders to approve the financial report, the Directors' report or the auditor's report.

The financial report, the Directors' report and the auditor's report each relate to the Company's financial year ending 31 July 2020. These reports will be available from the Company's website at www.funtastic.com.au.

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 the Company.

Shareholders will also be given a reasonable opportunity at the Meeting to ask the Company's auditor, Grant Thornton Australia Limited (**Grant Thornton**), questions about the auditor's report, the conduct of its audit of the Company for the financial year ending 31 July 2020, the preparation and content of the auditor's report, the accounting policies adopted by the Company in its preparation of the financial statements and the independence of Grant Thornton in relation to its conduct of the audit.

4 Resolution 1 – Approval of Remuneration Report

As required by the Corporations Act, the Board is presenting the Remuneration Report to Shareholders for consideration and adoption by a non-binding vote.

The Remuneration Report will be included in the Directors' report in the Company's Annual Report for 2020. It will be available from the Company's website at <https://corporate.funtastic.com.au/investors/asx-announcements/>.

The **Remuneration Report**:

- (a) describes the policies behind, and structure of, the remuneration arrangements of the Company and the link between remuneration and the Company's performance;
- (b) sets out the remuneration arrangements in place for each Director and for specified senior executives of the Company; and
- (c) explains the difference between the basis for remunerating non-executive Directors and executives, including executive Directors.

The vote on Resolution 1 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 the Company.

Shareholders will be given the opportunity to ask questions and to make comments on the Remuneration Report at the Meeting.

5 Resolutions 2 and 3 – Re-election of Directors, Ms Anderson and Mr Tripodi

5.1 General

The Company is seeking Shareholder approval under Resolutions 2 and 3 by ordinary resolution for the re-election of Ms Nicki Anderson and Mr John Tripodi as Directors of the Company.

5.2 Background

Clause 35(c) of the Company's constitution requires that at each annual general meeting of the Company, at least two Directors of the Company retire from office and may be nominated for re-election to the Board at that meeting.

Clause 35(g) of the Company's constitution provides that if a Director retires at the annual general meeting, the Company may, by ordinary resolution elect or re-elect the retired Director to fill the vacated office.

Ms Anderson and Mr Tripodi are each eligible for re-election having been nominated by the Board and a Shareholder in accordance with clause 35(h) of the Company's constitution.

Ms Anderson and Mr Tripodi will therefore retire from the Board at the Meeting in accordance with the Company's constitution and, being eligible, seek re-election by the Shareholders.

5.3 Ms Nicki Anderson – Qualifications, experience and other material directorships

Ms Nicki Anderson (B Bus, EMBA, GAICD) was appointed to the position of Independent Non-Executive Director of the Company on 25 October 2018. Ms Anderson is chair of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee.

Ms Anderson is an accomplished leader and director with deep experience in strategy, sales, marketing, licensing and innovation within branded food, beverage and consumer goods businesses both in Australia and internationally (including Coca Cola Amatil, Cadbury Schweppes, Nestle and Kraft)..

Ms Anderson has held senior positions in marketing and innovation within world class fast-moving consumer goods (**FMCG**) companies and was most recently a managing director within the Blueprint Group concentrating on sales, marketing and merchandising in the retail and pharmaceutical sales channels.

Ms Anderson has an Executive Master of Business Administration from the Australian Graduate School of Management, a Bachelor of Business and is a graduate of the Australian Institute of Company Directors.

Nicki is currently a Director of Mrs Mac's Limited, Australia Made Campaign Limited, Prostate Cancer Foundation of Australia and ASX Listed Select Harvests Limited. Nicki is a Member and Former Chair of the Monash University Advisory Board for the marketing faculty; Chair of the Remuneration & Nomination Committee for Mrs Mac's Limited & Funtastic; and Member of the Remuneration Committee for Select Harvests Limited.

5.4 Mr John Tripodi – Qualifications, experience and other material directorships

Mr John Tripodi (B Com, B Bus (Hons)) was appointed to the position of Independent Non-Executive Director of the Company on 25 October 2018. Mr Tripodi is chair of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee.

Mr Tripodi is a business leader with extensive multinational FMCG experience in various strategic and operational roles with a track record of championing innovative brand strategies that deliver successful commercial outcomes.

Mr Tripodi is currently the chief executive officer of the diversified sport, entertainment and consumer lifestyle agency, Twenty3 Group. Prior to co-founding the Twenty3 Group, Mr Tripodi held senior sales and marketing roles with Mars, Inc. before moving into general management with the L'Oréal Group.

Mr Tripodi is a graduate of the University of Melbourne in Commerce and holds an honours degree in Marketing from Monash University. He is also an Adjunct Professor of Business at RMIT University.

C SPECIAL BUSINESS

6 Resolution 4 – Approval of the Company’s Employee Incentive Plan

6.1 Background to Resolution 4

Resolution 4 seeks Shareholder approval by ordinary resolution of the Plan and the issue of equity securities under the Plan for the purposes of Exception 13 of Listing Rule 7.2 (discussed in Section 2.4 above) and for all other purposes.

The Company does not currently have any employee incentive plan in place. The Plan offers the Company flexibility in the manner that it awards participants, including by way of issue of options, performance rights, service rights, share appreciation rights and deferred share awards.

As the Company anticipates a return to profitability following Completion of the Proposed Transactions, it believes that officers, Directors and employees will be best incentivised and motivated by aligning their interests with Shareholders.

6.2 Overview of the Plan

Under the Plan, the Board may grant Awards (including Options, Share Appreciation Rights and Deferred Share Awards) to any officer, Director or employee of the Company or any of its related bodies corporate. Vesting of any Awards granted under the Plan may be subject to the satisfaction of performance hurdles, vesting conditions, and/or other conditions as determined by the Board.

The maximum number of equity securities proposed to be issued under the Plan, following Shareholder approval is 42,289,376 equity securities. This number is equal to approximately 5% of the total number Shares in the Company that will be on issue after Completion. It is not envisaged that the maximum number of equity securities for which approval is sought will be issued immediately.

A summary of the key terms of the Plan is set out in **Annexure B** to these Explanatory Notes.

Given that the Plan is a new equity incentive plan, this is the first time the Company has sought Shareholder approval in respect of the Plan (and the issue of Awards under it). As at the date of the Notice, no Awards have been granted under the Plan.

6.3 Issues to Directors and Related Parties

Any issues of Awards under the Plan to a Director, an Associate of a Director, or a person whose relationship with the Company, Director or Associate of the Director is, in ASX’s opinion, such that approval should be obtained, will require Shareholder approval under Listing Rule 10.14 prior to the relevant issue.

Consequently, Shareholder approval is being sought under Resolutions 5, 6, 12, 13 and 14 for purposes of Listing Rule 10.14 for the grant of Awards under the Plan to two current Directors, Ms Anderson and Mr Tripodi and to the proposed new Directors, Mr Mittoni and Mr Moore. Those proposed Awards are discussed further below.

6.4 Reason why Shareholder approval is being sought: Listing Rule 7.2, Exception 13

Listing Rule 7.1 imposes a limit on the number of equity securities that a company can issue or agree to issue without shareholder approval. Generally, a company may not, without shareholder approval, issue in any 12 month period a number of equity securities that is more than 15% of the number of fully paid ordinary shares on issue 12 months before the issue.

Listing Rule 7.2 provides a number of exceptions to Listing Rules 7.1 and 7.1A. Exception 13 to Listing Rule 7.2 provides that equity securities issued pursuant to an employee incentive scheme are not included in the calculation of the 15% limit for Listing Rule 7.1 purposes or the 10% Placement Capacity under Listing Rule 7.1A, if the employee incentive scheme and the issue of equity securities under it have been approved by shareholders within the three year period prior to the issue of equity securities.

Resolution 4 seeks Shareholder approval, for the purpose of Exception 13 and for all other purposes, of the Plan, the grant of Awards under the Plan from time to time, and the issue of Shares upon the exercise of any Awards.

6.5 Consequences if Resolution 4 is passed

If Resolution 4 is passed, up to 42,289,376 equity securities issued by the Company as Awards under the Plan will be excluded from the 15% limit imposed by Listing Rule 7.1 or the 10% Placement Capacity under Listing Rule 7.1A for a period of three years from the date of the Meeting.

By approving Resolution 4, the Company will preserve flexibility to issue equity securities in the future up to the limits set out in Listing Rules 7.1 and 7.1A, without the need to obtain further Shareholder approval. The requirement to obtain Shareholder approval for an issue, at the time of issue, could limit the Company's ability to take advantage of opportunities that may arise.

6.6 Consequences if Resolution 4 is not passed

If Shareholders do not approve Resolution 4, the Company may still issue equity securities under the Plan, but any equity securities issued by the Company must be taken into account when calculating whether the limits under Listing Rules 7.1 and 7.1A have been reached.

7 Resolutions 5 and 6 – Grant of Share Appreciation Rights under the Plan

7.1 General

Resolutions 5 and 6 seek Shareholder approval for the purposes of Listing Rule 10.14 and for all other purposes, for the grant of Share Appreciation Rights (**SARs**) (including the issue of Shares on vesting of those SARs) to Ms Anderson and Mr Tripodi under the Plan on the terms set out below.

7.2 Reason why Shareholder approval is being sought: Listing Rule 10.14

Listing Rule 10.14 requires the Company to obtain Shareholder approval for the issue of equity securities, including SARs, to Directors of the Company under the Plan.

The Board has considered the application of Chapter 2E of the Corporations Act to the proposed grant of SARs to Ms Anderson and Mr Tripodi and considers that for the purposes of the exception contained in section 211(1) of the Corporation Act, the Financial Benefit to be given by the grant of the SARs constitutes reasonable remuneration to each of Ms Anderson and Mr Tripodi, given the circumstances of the Company; and their respective roles and responsibilities at the Company.

Therefore the Company is not seeking Shareholder approval under Chapter 2E, in addition to the approval being sought under the Listing Rule 10.14.

7.3 Background to Resolutions 5 and 6

The Company is proposing to issue SARs to Non-Executive Directors of the Company, Ms Anderson and Mr Tripodi under the Plan as a component of their remuneration, in order to keep cash payments to a minimum and to provide incentives for the Directors which are linked to the performance of the Company. The Plan enables the Company to issue SARs in respect of Shares to Non-Executive Directors of the Company on terms determined by the Board from time to time.

Both Ms Anderson and Mr Tripodi's total remuneration for their services as non-executive Directors of the Company is currently comprised of annual Director's fees of \$60,000 plus superannuation. In lieu of an increase in the cash amount payable to Ms Anderson and Mr Tripodi of \$30,000 per annum, the Company proposes to issue SARs on the terms set out below.

The value of the SARs when added to the Director's fees payable in cash will produce a total remuneration package that is intended to be market competitive and reasonable given the Company's circumstances.

In determining the terms of the SARs, the Directors have ensured that the terms do not cause conflict with their obligations to bring independent judgement to their roles. Consistent with Principle 8 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the grants of SARs will better align the interests of the Non-Executive Directors with the interests of Shareholders by creating an incentive to achieve Share price growth and providing an opportunity for the Directors to acquire Shares in the Company through the sacrifice of an increase in Director's fees. In accordance with these governance recommendations, the SARs are not subject to performance-based vesting conditions.

7.4 What are SARs?

SARs are a type of compensation that is linked to the Company's Share price during a pre-determined period. A SAR rewards the holder if Share price growth is achieved after the relevant Grant Date.

On the Vesting Date, the holder will receive a benefit in the form of Shares to the value of:

- (a) the Market Price* of a Share on the Vesting Date; less
- (b) the Market Price of a Share on the Grant Date of the SARs; multiplied by
- (c) the number of SARs.

The Board has determined that the benefit will be settled in Shares rather than cash. This is intended to align the interests of the Directors with the long term performance of the Company.

***Market Price**, in relation to SARs, means the weighted average sale price of Shares on the ASX over the five trading days immediately preceding the Grant Date or the Exercise Date (as applicable).

7.5 Details of the proposed grants of SARs

It is proposed that Ms Anderson and Mr Tripodi will receive SARs in three tranches as set out in the table below:

	Tranche 1	Tranche 2	Tranche 3
Number of SARs	The number of SARs equal to a value of \$30,000 on 1 November 2020 (see Section 7.6 below)	The number of SARs equal to a value of \$30,000 on 1 November 2021 (see Section 7.6 below)	The number of SARs equal to a value of \$30,000 on 1 November 2022 (see Section 7.6 below)
Grant Value	\$30,000	\$30,000	\$30,000
Grant Date	23 November 2020 (being the date of the Meeting)	The later of 1 November 2021 or 1 Business Day after the Company's 2021 annual general meeting	The later of 1 November 2022 or 1 Business Day after the Company's 2022 annual general meeting
Vesting Date	1 November 2021	1 November 2022	1 November 2023

The SARs will be issued for nil consideration and will only be subject to a vesting condition relating to the holder's continued engagement with the Company. The SARs must be exercised within six months of the relevant Vesting Date, or they will lapse. On the exercise of a SAR, no amount is payable by the holder.

7.6 How many SARs are proposed to be issued to Ms Anderson and Mr Tripodi and how was that number determined?

The Board has determined that, in lieu of additional Director's fees, on each relevant Grant Date, Ms Anderson and Mr Tripodi will be issued SARs to a value of \$30,000 (**Grant Value**).

The number of SARs issued on each Grant Date will be calculated by dividing the Grant Value by the Market Price on 1 November in the relevant year.

By way of example, if on 1 November 2020 the Market Price is \$0.10 then Ms Anderson and Mr Tripodi would each receive 300,000 SARs in 2020, being \$30,000/\$0.10.

7.7 Additional information required by Listing Rule 10.15 in respect of Resolutions 5 and 6

Listing Rule 10.15 requires that the following additional information be provided to Shareholders in relation to the proposed issue of SARs under Resolutions 5 and 6:

- (a) Each of Ms Anderson and Mr Tripodi's current total annual remuneration package comprises payment of \$60,000 plus superannuation for Director's fees.
- (b) To date, no equity securities have been issued under the Plan.
- (c) If and to the extent that Shareholders approve Resolutions 5 and 6, the relevant SARs will be issued on the Grant Dates specified in the table in Section 7.5 above (and in any event within three years after the Meeting).
- (d) The key terms of the Plan are summarised at **Annexure B** to these Explanatory Notes.
- (e) Neither Ms Anderson nor Mr Tripodi will receive any loan from the Company in connection with the grant of SARs under Resolutions 5 and 6.
- (f) Details of any equity securities issued to any Director under the Plan will be published in the Company's annual report relating to the period in which they were issued, along with a statement that approval for the issue was obtained under Listing Rule 10.14.
- (g) Any additional persons covered by Listing Rule 10.14 who become entitled to participate in an issue of equity securities under the Plan after Resolutions 5 and 6 are approved and who are not named in the Notice will not participate until Shareholder approval is obtained under Listing Rule 10.14.

7.8 No additional approval under Listing Rule 7.1

As noted above, Listing Rule 7.1 provides that a listed company must not, subject to certain exceptions, issue during any 12 month period any equity securities, including equity securities with rights of conversion to equity, if the number of those equity securities exceeds 15% of the total number of ordinary securities on issue at the commencement of that 12 month period.

These restrictions do not apply in certain circumstances, including in relation to an issue of equity securities approved for the purposes of Listing Rule 10.14.

If Shareholders approve Resolutions 5 and 6, separate approval will not be required under Listing Rule 7.1 for the issue of SARs (or Shares on vesting of those SARs).

7.9 Consequences of Resolutions 5 and 6

If Shareholders approve Resolutions 5 and 6, the issue of the SARs will not reduce the Company's capacity to issue equity securities under Listing Rule 7.1. If approval is not provided then, subject to the Company's cash position, the additional Directors fees for Ms Anderson and Mr Tripodi may be paid in cash.

8 RESOLUTION 7 – APPROVAL OF 10% PLACEMENT CAPACITY

8.1 Introduction

Listing Rule 7.1A enables an eligible entity which has obtained shareholder approval to issue up to an additional 10% of its issued share capital through placements over a 12-month period after its annual general meeting (**10% Placement Capacity**). The 10% Placement Capacity is in addition to the Company's 15% placement capacity under Listing Rule 7.1.

The Company is seeking Shareholder approval by way of a special resolution to have the ability to issue equity securities under the 10% Placement Capacity.

If Shareholders approve Resolution 7, the number of equity securities the Company may issue under the 10% Placement Capacity will be calculated at the date of issue of the equity securities in accordance with the formula prescribed in Listing Rule 7.1A.2 (see Section 8.2.3 below).

Resolution 7 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 for it to be passed.

8.2 Listing Rule 7.1A

8.2.1 Eligible entity

An entity is an eligible entity for the purposes of Listing Rule 7.1A if it is not included in the S&P/ASX 300 Index and has a market capitalisation of \$300 million or less. The Company is an eligible entity.

8.2.2 Equity securities

Any equity securities issued under the 10% Placement Capacity must be in the same class as an existing quoted class of equity securities of the Company and must be issued for cash consideration.

8.2.3 Formula for calculating 10% Placement Capacity

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 10% Placement Period (defined below), a number of equity securities calculated in accordance with the following formula:

(A x D) – E

Where:

A is the number of fully paid ordinary securities on issue at the commencement of the relevant period:

- (a) plus the number of fully paid ordinary securities issued in the relevant period under an exception in Listing Rule 7.2 (other than exception 9, 16 or 17);
- (b) plus the number of fully paid ordinary securities issued in the 12 months on the conversion of convertible securities (including convertible notes and options) within Listing Rule 7.2 exception 9 where:
 - (i) the convertible securities were issued or agreed to be issued before the relevant period; or
 - (ii) the issue of, or agreement to issue, the convertible securities was approved, or taken under these rules to have been approved, under Listing Rules 7.1 or 7.4,
- (c) plus the number of fully paid ordinary securities issued in the relevant period under an agreement within Listing Rule 7.2 exception 16, where:

- (i) the agreement was entered into before the commencement of the 12 month period; or
 - (ii) the agreement or issue was approved, or taken under these rules to have been approved, under Listing Rules 7.1 or 7.4,
- (d) plus the number of fully paid ordinary securities issued in the relevant period with approval under Listing Rules 7.1 or 7.4. This does not include an issue of fully paid ordinary securities under the entity's 15% placement capacity without shareholder approval. This may include fully paid ordinary securities issued in the relevant period under an agreement to issue securities within Listing Rule 7.2 exception 17, where the issue is subsequently approved under Listing Rule 7.1;
- (e) plus the number of partly paid ordinary securities that became fully paid in the relevant period; and
- (f) less the number of fully paid ordinary securities cancelled in the relevant period.

Note that A has the same meaning in Listing Rule 7.1 when calculating an entity's 15% placement capacity.

D is 10%

E is the number of equity securities issued or agreed to be issued under Listing Rule 7.1A.2 in the relevant period where this issue or agreement has not subsequently been approved by the holders of its ordinary securities under Listing Rule 7.4.

relevant period means:

- (a) the 12 month period immediately preceding the date of issue or agreement; or
- (b) in respect of an issue or agreement entered into within 12 months of the entity being admitted to the official list, the period from the date the entity was admitted to the official list, to the date immediately preceding the date of the issue or agreement.

8.3 Specific information required by Listing Rule 7.3A

The following information is provided in relation to the approval of the 10% Placement Capacity pursuant to and in accordance with Listing Rule 7.3A:

8.3.1 10% Placement Period:

Shareholder approval of the 10% Placement Capacity under Listing Rule 7.1A is valid from the date of the annual general meeting at which the approval is obtained (i.e. the date of the Meeting) and expires on the earlier to occur of:

- (a) the date that is 12 months after the date of the annual general meeting at which the approval is obtained;
- (b) the time and date of the next annual general meeting, if less than 12 months; or
- (c) the time and date of the approval by Shareholders of a transaction under Listing Rules 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking), or such longer period if allowed by ASX,

(10% Placement Period).

The Company will only issue and allot the equity securities during the 10% Placement Period. In accordance with Listing Rule 7.1A, the approval under Resolution 7 for the issue of the equity

securities will cease to be valid in the event that Shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities) or Listing Rule 11.2 (disposal of main undertaking).

8.3.2 Minimum issue price

The equity securities issued under Listing Rule 7.1A will be issued by the Company for cash consideration at an issue price which is not less than 75% of the volume weighted average market price of equity securities in the same class calculated over the 15 trading days on which trades in the relevant class were recorded immediately before:

- (a) the date on which the price at which the equity securities are to be issued is agreed by the Company and the recipient; or
- (b) if the equity securities are not issued within 10 trading days of the date mentioned in paragraph (a) above, the date on which the equity securities are issued.

8.3.3 Risk of economic and voting dilution

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

If Resolution 7 is approved by Shareholders and the Company issues equity securities under the 10% Placement Capacity, the existing Shareholders' voting and economic interests in the Company will be diluted as shown in the table below.

The table below shows the dilution of existing Shareholders on the basis of the closing price of Shares on 22 September 2020 and the number of Shares for variable "A" calculated in accordance with the formula in Listing Rule 7.1A.2 as at the date of the 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 22 September 2020 and 100% greater than the closing price of the Shares on 22 September 2020.

Variable A in Listing Rule 7.1.A.2		Dilution		
		\$0.0315 50% decrease in Issue Price	\$0.0630 Issue Price	\$0.1260 100% increase in Issue Price
Current Variable A 240,404,075	10% Voting Dilution	24,040,408	24,040,408	24,040,408
	Funds Raised	\$757,272.85	\$1,514,545.70	\$3,029,091.35
50% increase in current Variable A 360,606,113	10% Voting Dilution	36,060,611	36,060,611	36,060,611
	Funds Raised	\$1,135,909.25	\$2,271,818.49	\$4,543,636.99
100% increase in current Variable A 480,808,150	10% Voting Dilution	48,080,815	48,080,815	48,080,815
	Funds Raised	\$1,514,545.67	\$3,029,091.35	\$6,058,182.69

The table has been prepared on the following assumptions:

- (a) The Issue Price set out in the table is the closing price of the Company's Shares on the ASX on 22 September 2020.
- (b) The Company issues the maximum number of equity securities available under the 10% Placement Capacity.
- (c) There are 240,404,075 Shares on issue, being the number of Shares on issue as at 22 September 2020.
- (d) No rights convertible into Shares are exercised into Shares before the date of the issue of the equity securities under Listing Rule 7.1A.
- (e) The 10% voting dilution reflects the aggregate percentage dilution against the issued Share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.
- (f) The table shows only the effect of issues of equity securities under Listing Rule 7.1A, not under the 15% placement capacity under Listing Rule 7.1 or any issues otherwise permitted under the Listing Rules.
- (g) The issue of equity securities under the 10% Placement Capacity consists only of Shares.
- (h) The Company has not issued any equity securities in the 12 months prior to the date of the Meeting that were not issued under an exception in Listing Rule 7.2 or which were not approved under Listing Rule 7.1 or 7.4.

Shareholders should note that there is a risk that:

- (a) the market price for the Company's equity securities may be significantly lower on the date of the issue of the equity securities than on the date Shareholders provide their approval at the Meeting; and
- (b) the equity securities may be issued at a price that is at a discount to the market price for the Company's equity securities on the issue date,

which may have an effect on the amount of funds raised by the issue of the equity securities.

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.

8.3.4 Purpose of issues under the 10% Placement Capacity

The Company may issue equity securities under the 10% Placement Capacity for the purpose of raising funds to use towards general working capital requirements, ongoing business development activities and/or the acquisition of new business assets or investments (including expenses associated with such acquisition).

8.3.5 Allocation under the 10% Placement Capacity

The Company's allocation policy will depend on the prevailing market conditions at the time of any proposed issue pursuant to the 10% Placement Capacity.

The identity of the allottees of equity securities will be determined on a case-by-case basis having regard to factors including, but not limited to, the following:

- (a) the purpose of the issue;

- (b) any 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;
- (c) the effect of the issue of the equity securities on the control of the Company;
- (d) the circumstances of the Company, including, but not limited to, the financial position and solvency of the Company;
- (e) the prevailing market conditions; and
- (f) any advice from corporate, financial and broking advisers (if applicable).

The allottees under the 10% Placement Capacity have not been determined as at the date of this Notice but may include existing Shareholders and/or new investors who are not Related Parties of the Company (or their Associates).

8.4 Previous approval under Listing Rule 7.1A

The Company obtained Shareholder approval under Listing Rule 7.1A at the Company's previous annual general meeting held on 18 November 2019. Note, however, the Company has not issued any equity securities under the 10% Placement Capacity since that annual general meeting.

D PROPOSED TRANSACTIONS

9 RESOLUTIONS 8 TO 13 – APPROVAL OF THE PROPOSED TRANSACTIONS

9.1 Background

On 23 October 2020, the Company announced that it had entered into agreements to give effect to a number of important transactions as summarised in Sections 9.1(a) to (d) below (the **Proposed Transactions**). Completion of each of the Proposed Transactions is subject to:

- the approval by Shareholders of all of the Transaction Resolutions; and
- Completion of all the other Proposed Transactions, meaning that if any of the Proposed Transactions do not proceed, none of the Proposed Transactions will proceed.

Completion under the Share Sale Deed and the Underwriting Agreement are subject to satisfaction of additional conditions precedent set out in those documents respectively, and these additional conditions precedent are summarised in Sections 9.2 and 11.2 below.

The Proposed Transactions are:

(a) Acquisition and issue of Shares

The Company will acquire all of the issued share capital of Hobby Warehouse Pty Ltd (**HWL**), Mittoni Pty Ltd (**MPL**) and Toys R Us Licensee Pty Ltd (**TRUL**) (together, the **Target Companies**) (**Acquisition**) under the terms of a Share Sale Deed dated 23 October 2020 (**Share Sale Deed**).

The sellers under the Share Sale Deed are Mr Louis John Mittoni, Ms Gina Georgousis, Mittoni Holdings Pty Ltd (as trustee for Mittoni Family Trust) (**MFT Trustee**) and Hobby Warehouse Holdings Pty Ltd (as trustee for the Hobby Warehouse Trust) (**HWT Trustee**) (together, the **Sellers**).

As consideration for the Acquisition, under the Share Sale Deed the Company will issue a total of 291,205,818 Shares (**Consideration Shares**) to the Sellers as follows:

- (i) 79,081,452 Consideration Shares to MFT Trustee; and
- (ii) 212,124,366 Consideration Shares to HWT Trustee.

In total, the Consideration Shares will comprise 34.43% of all of the Shares of the Company after Completion of each of the Proposed Transactions.

A summary of the terms of the Share Sale Deed is set out in Section 9.2 below.

(b) Placement of Shares to raise approximately \$29 million

The Company will undertake a placement of Shares to sophisticated and professional investors to raise approximately \$29 million (**Placement**).

Further particulars of the Placement and the use of the proceeds of the Placement are summarised in Sections 9.6 and 11 below.

(c) Repayment of the indebtedness of the Company to Jaszac Investments Pty Ltd

Under a Secured Loan Agreement dated 14 March 2019, as amended and restated on 14 January 2020 between the Company and Jaszac Investments Pty Ltd (**Jaszac**) (**Loan Agreement**), as at the date of the Notice, the Company is indebted to Jaszac in an amount of \$8,745,422.79 (including interest). The applicable interest rate on the loan is 12% per annum.

On 23 October 2020, the Company and Jaszac entered into an agreement (**Conversion and Repayment Agreement**) under which:

- (i) the Company will issue 53,571,429 ordinary shares to Jaszac (**Conversion Shares**) on the terms and for the subscription price applicable under the Placement in consideration for the release by Jaszac of \$6 million of the Company's indebtedness under the Loan Agreement;
- (ii) the Company has agreed to repay the balance of the outstanding indebtedness under the Loan Agreement in cash by no later than 10 Business Days from the date of Completion, which amount will be repaid using funds raised in the Placement; and
- (iii) once the outstanding indebtedness has been repaid in full, the Loan Agreement will be cancelled.

(d) **TRUK Licence Agreement**

TRUK, is the licensor of the rights relating to www.toysrus.com.au and www.babiesrus.com.au, under a Licence Agreement with TRUL. On 23 October 2020, a number of changes to the Licence Agreement were agreed, with the taking effect of those changes to be subject to completion occurring under the Share Sale Deed (**Amended Licence Agreement**).

In consideration for the amendments to the Licence Agreement agreed by TRUK, the Company has agreed to issue 1,223,092 Shares to TRUK (**TRUK Shares**).

A summary of the terms of the Amended Licence Agreement is set out in Section 9.3 below. Further details regarding the TRUK Shares are included in Section 13 below.

As noted above, implementation and Completion of each of the Proposed Transactions is conditional on implementation and Completion of each of the other Proposed Transactions. If any of the Proposed Transactions do not proceed, none of the Proposed Transactions will proceed.

The Shares issued pursuant to Proposed Transactions will be issued under a prospectus given under section 713 of the Corporations Act. This will mean that subject to there being no other restrictions applying (such as escrow arrangements), the Shares may be freely traded after they are issued.

9.2 Share Sale Deed

At Completion, under the Share Sale Deed, the Company will acquire all of the issued share capital of the Target Companies, being HPL, MPL and TRUL.

HPL owns and operates the Hobby Warehouse business (www.hobbywarehouse.com.au), while MPL owns and operates the Mittoni wholesale business (www.mittoni.com.au). TRUL is the licensee of the Toys R Us and Babies R Us brands in Australia and New Zealand and carries on business under those names (www.toysrus.com.au).

Section 9.5 below and the Investor Presentation announced to ASX on 23 October 2020 available at <https://corporate.funtastic.com.au/investors/asx-announcements/> contain further details in relation to each of the businesses carried on by the Target Companies.

In return for the Acquisition of the Target Companies, the Company will issue the Consideration Shares to the MFT Trustee and HWT Trustee in the proportions stated in Section 9.1 above.

The Share Sale Deed contains certain other key terms:

- (a) (**Changes to the Board**): With effect from Completion:

- (i) Mr Louis Mittoni will be appointed to the Board and will occupy the position of Managing Director; and
- (ii) Mr Kevin Moore will be appointed to the Board, and it is expected that the Board will resolve to appoint Mr Moore as Chairman.

Further particulars regarding Mr Mittoni and Mr Moore are set out in Section 9.7.

As stated in the announcement by the Company on 23 October 2020, Mr Bernie Brookes will resign from the Board with effect from Completion.

To give effect to the above arrangements the Company has entered into executive services contracts with Mr Mittoni and Mr Moore (as summarised in Section 9.7), in each case taking effect from Completion.

- (b) **(Escrow of Consideration Shares):** Both MFT Trustee and HWT Trustee have agreed to enter into escrow deeds with respect to 282,277,246 of the 291,205,818 Consideration Shares which are issued to them under the Share Sale Deed (**Relevant Shares**). Each escrow deed prohibits MFT Trustee and HWT Trustee from dealing in the Relevant Shares issued to them during the following periods:

- (i) in the case of 50% of the Relevant Shares held by MFT Trustee and HWT Trustee respectively, for one year following the date of Completion; and
- (ii) in the case of the remaining 50% of the Relevant Shares held by MFT Trustee and HWT Trustee respectively, for two years following the date of Completion.

There are limited exceptions to the restrictions on dealing in the Relevant Shares, including where a takeover bid is made for the Company or the Company proposes a scheme of arrangement under the Corporations Act involving the acquisition of a majority of the Shares of the Company. The Company may also waive compliance with an escrow deed (although the Company would only do this in exceptional circumstances).

- (c) **(Undertakings as to the issue of further Shares):** Subject to the qualifications listed below, the Company has given an undertaking in good faith that during the period between Completion and 31 July 2021 it will not issue new Shares. The qualifications are that the Company may issue new Shares:

- (i) where the Directors consider that it would be consistent with their duties as Directors to issue new Shares;
- (ii) under Listing Rules 7.1 and 7.1A; and
- (iii) pursuant to the Employee Incentive Plan.

- (d) **(Limits on liability):** The Share Sale Deed contains a number of warranties by both the Sellers (on the one hand) and the Company (on the other hand). These are generally seen as customary and appropriate for transactions of the nature of those contemplated by the Share Sale Deed.

The Sellers are liable jointly and severally for a breach of the warranties, but the aggregate liability of the Sellers is limited to \$1 million, and a claim for breach of warranty must be made by the Company within 12 months of completion under the Share Sale Deed. These limits were set having regard to the due diligence undertaken by the Company with respect to the Target Companies and are considered appropriate by the Board.

- (e) **(Other conditions precedent):** The Share Sale Deed contains additional conditions precedent that are supplemental to Completion of each of the Proposed Transactions, such as the provision of notices in relation to the completion of the Placement.

Listing Rule 11.1 and 11.2 provide that if an entity is proposing to make a significant change to the nature or scale of its activities then ASX may require the entity to meet the requirements for admission and quotation in Listing Rules 1 and 2 (as if the Company was applying for admission to the official list of ASX). ASX has confirmed that it does not require the Company to seek approval under Listing Rule 11.1 and the Company is not required to meet the requirements in Listing Rules 1 and 2 as a result of the Proposed Transactions.

9.3 Amended Licence Agreement

The licence to use the “Toys R Us” and “Babies R Us” brands is seen as being a major growth factor for the Target Companies in the future and is a key driver for the Acquisition.

In connection with the Acquisition, a number of changes to the Licence Agreement have been agreed with TRUK which will be effective from Completion. The amendments seek to align the interests of TRUK with the Company to actively grow the business through the use of the Toys R Us and Babies R Us brands.

The agreed changes to the Licence Agreement include the following:

- (a) **(Extension of Term):** The initial term being extended by 12 years to 31 May 2041, with a possible further extension for two additional ten year renewal periods (subject to satisfaction of certain conditions, such as compliance with the Amended Licence Agreement, and neither party giving notice of intention not to renew at least 18 months prior to expiration of the relevant term). The amendments give greater certainty to the Company as to the continuity of the relationship of the parties.
- (b) **(Board and Management):**
- (i) TRUK having observer, consultation, and approval rights relating to the Board and management of the Company, including consultation and approval rights over any future Chief Executive Officer, Managing Director and Chairperson of the Company; and
 - (ii) the Company having an obligation to use its best efforts to ensure that the number of Board members does not exceed four.

If the Company does not comply with these obligations the licence fees will increase by 30% until the non-compliance has been rectified. These amendments seek to align the interests of TRUK with the Company to actively grow the business through the use of the Toys R Us and Babies R Us.

Under the Company’s constitution, the chairperson of the Board has a casting vote at Board meetings. That is, if there four Directors and only two Directors vote in favour of a motion, the chairperson will have the deciding vote.

- (c) **(Royalties)** TRUK varying its licence fee structure.
- (d) **(Termination):** A balanced termination regime being adopted, as follows:
- (i) the Amended Licence Agreement can be terminated by either party by giving 18 months’ notice prior to the expiration of the initial term or the first renewal term.
 - (ii) TRUK may terminate by prior written notice to TRUL on the occurrence of any of the following, amongst other things:

- (A) TRUL, HWL or the Company breaches the agreement and if remediable fails to remedy after notice;
 - (B) late payment of any amounts due which are not remedied after the TRUK gives notice;
 - (C) change in control of TRUL or the Company (other than in respect of the Acquisition or with TRUK's consent);
 - (D) TRUL fails to pay its vendors or suppliers by the due date for payment (absent a bona fide dispute) and fails to remedy after notice;
 - (E) TRUL, HWL and the Company cease to be affiliates of each other;
 - (F) TRUL uses the Authorised Marks (as defined in the Amended Licence Agreement) in a manner inconsistent with the terms of the Amended Licence Agreement and fails to remedy after notice; or
 - (G) TRUL fails to achieve minimum gross sale revenue of A\$55 million per annum for the year ending 31 December 2031 and each year thereafter (with that revenue to be exclusively from sales by TRUL).
- (iii) TRUL may terminate for a material breach by TRUK if the breach is not remedied within 45 days of notice.
- (e) **(Restraints)** The Company and its subsidiaries being subject to significant restraints of trade as follows:
- (i) except as permitted by the agreement, the Company and its subsidiaries must not, directly or indirectly compete with the Toys R Us or Babies R Us business anywhere in the world, for the duration of the term of the Amended Licence Agreement and for one year thereafter (or, if the agreement is terminated by the Company in accordance with its terms, for one year after such termination).
- This extends to engaging in, affiliating with, assisting, owning, operating, or holding a direct or indirect interest in a Competitive Business (as defined in the Amended Licence Agreement) which includes, among others, a juvenile and/or toy store or business, and an entity that derives in excess of 20% of its gross revenues from the sale of products which compete with Toys R Us or Babies R Us; and
- (ii) however, if the Amended Licence Agreement is terminated by TRUK, the restraints above apply to the Company and its subsidiaries until the earlier of:
 - (A) the end of the restraint period, being 60 months after the date of termination (or, if unenforceable, a shorter restraint period); and
 - (B) the last day of the term (being 31 May 2041 or any renewal term, as applicable).

9.4 Reasons for the Proposed Transactions

The Acquisition is a key part of the strategic initiatives being undertaken by the Board to expand the Company's customer base by building upon its existing e-commerce platform, strengthening its online selling capability and securing access to a broader portfolio of desirable children's brands which offer growth potential through the Toys R Us global relationships.

The Board believes that the Proposed Transactions are in the best interests of Shareholders because:

- (a) through the Acquisition (as a result of the Amended Licence Agreement), the Company will acquire exclusive rights to the Toys R Us and Babies R Us brands in Australia and New Zealand. The Acquisition is expected enable the Company to gain access to new products and propel growth in the direct to consumer sales through online channels;
- (b) the businesses operated by the Target Companies, described further in Section 9.5, are wholly aligned with the family entertainment ethos of the Company;
- (c) it is anticipated that the Acquisition will realise synergies between the combined businesses that will further reduce the cost of doing business, including from centralisation of operational divisions, merging staff/teams and reducing fixed operating costs by investing in warehouse robotics and artificial intelligence;
- (d) the Target Companies have well established logistics capabilities which the Company expects to enable the Company to expand distribution channels and reduce warehousing costs;
- (e) the combined distribution businesses are expected to be able to exploit their mutually exclusive customer bases to generate immediate growth and leverage future opportunities by diversifying the Company's current customer concentration;
- (f) the Company will repay \$6 million of its existing debt to Jaszac under the Conversion and Repayment Agreement;
- (g) through the Placement, the Company will raise \$29 million which will be applied towards purposes set out in Section 9.6 below;
- (h) there may be an improvement in the liquidity of the Company's Shares if the Proposed Transactions create increased interest in the Company and therefore a more efficient market for Shareholders to dispose of their shareholdings;
- (i) the Independent Expert has concluded that the Proposed Transactions are not fair but reasonable to Non-Associated Shareholders. In the Independent Expert's opinion, despite not being fair, there are sufficient reasons for Shareholders to approve the Proposed Transactions in the absence of any superior alternative offer;
- (j) if the Proposed Transactions were not to proceed, the Company would require a significant capital injection for it to continue to be viable. The alternatives to the Proposed Transactions are discussed further in Section 9.9 below and section 11.3 and 11.4 of the Independent Expert's Report; and
- (k) the advantages of the Proposed Transactions are discussed further in section 11.10 of the Independent Expert's Report.

9.5 About the Target Companies

The operating activities of each of the Target Companies are as follows:

9.5.1 HWL

HWL has operated solely as an online retailer of products for hobby and toy enthusiasts since 2011. HWL products are family friendly and fun for all ages, from toddlers through to adults. Further information about the products that are sold by HWL can be found at www.hobbywarehouse.com.au.

9.5.2 MPL

MPL was established over 20 years ago as a wholesale and distribution company for eSport PC/console gaming peripherals, enthusiast IT and consumer electric products. Today, MPL continues to operate in a wholesale and distribution capacity with relatively low overheads and has expanded via associated company HWL to include direct to customer sales through its online sales platform. Further information about the products that are sold by MPL can be found at www.mittoni.com.au.

9.5.3 TRUL

As discussed in Section 9.3 above, TRUL has an exclusive license from TRUK, the US-based parent company which owns the Toys “R” Us® and Babies “R” Us® brands, to operate the Toys “R” Us and Babies “R” Us businesses in Australia and New Zealand.

The Licence Agreement includes rights for HWL to sell through the www.toysrus.com.au, www.babiesrus.com.au and www.hobbywarehouse.com.au websites in Australia and New Zealand including toys, baby products, and consumer brands such as LEGO®, Disney (Marvel, Star Wars, Disney Pixar), Mattel (Barbie®, Hot Wheels®, Fisher-Price®, Uno®), Hasbro (My Little Pony, NERF, Monopoly), PLAY-DOH, Thomas & Friends®.

Currently, TRUL is focussed on online sales, however the Company intends to launch physical stores for Toys “R” Us and Babies “R” Us over the next several years.

9.6 Use of funds raised through the Placement

The funds raised by the Placement will be applied towards the following:

- (a) working capital to fund growth of the merged group and the costs associated with the Proposed Transactions;
- (b) development of logistics, warehouse and robotic capabilities;
- (c) development of e-commerce and associated intellectual property and technology;
- (d) marketing and brand development; and
- (e) paying down part of the Company’s debt to Jaszac under the Loan Agreement.

An important objective following Completion of the Proposed Transactions will be to significantly expand direct to consumer branding and transactions via Razor, Hobby Warehouse, Toys R Us and Babies R Us while continuing to provide wholesale distribution to retailers. With a strong and growing online presence, plus a combined total shopper base of 1 million subscribers, e-commerce and wholesale distribution to physical retailers is expected to enable the merged group to significantly increase market share.

The Company plans to restructure its logistics operations by employing modern warehouse management systems and autonomous mobile robots (**AMRs**) product-to-picker system. Scalable AMR systems have become more available to Australian companies over the past 2 - 3 years, are cost-effective and have a proven track record for improving speed, accuracy and efficiency. The Company plans to significantly reduce warehouse and distribution costs using this strategy while improving service levels to customers.

9.7 Board composition

The Company’s Board is currently comprised of three Directors:

- (a) Mr Bernard Brookes;
- (b) Ms Nicki Anderson; and

(c) Mr John Tripodi.

Upon Completion, Mr Brookes will resign from the Board and the Company will appoint two nominees of the Sellers' as Directors of the Company. Under the Amended Licence Agreement, upon Completion, the Company is required to appoint Mr Louis Mittoni (one of the Sellers) and Mr Kevin Moore to the Board as Directors, with Mr Mittoni being appointed as Chief Executive Officer and Mr Moore appointed as Chairman.¹

Under the terms of the Company's constitution, if a Director is appointed to the Board by the other Directors, then that Director must retire from office at, and is eligible for re-election at, the next annual general meeting following their appointment. Accordingly, Mr Mittoni and Mr Moore will retire and seek re-election to the Board at the Company's next annual general meeting which will be held in the latter part of 2021.

Relevant Information regarding Mr Mittoni and Mr Moore is outlined below.

Mr Mittoni's background and experience:

Mr Mittoni is the founder of the Mittoni and Hobby Warehouse businesses. He has over 20 years' experience in operating and managing Australian retail businesses at both distributor and online channels.

As a qualified physicist and engineer, Mr Mittoni has intimate knowledge of process optimisation, programming and artificial intelligence.

Mr Moore's background and experience:

Mr Moore has multinational board and governance experience, specialising in digital marketing, and is a growth director with a focus on \$10 - \$100 million businesses. Mr Moore is a fellow of the Australian Institute of Company Directors and a member of the Chartered Institute of Marketing. Mr Moore holds a Diploma in International and Export Marketing from Henley, the Management College at the University of Reading.

Mr Moore has a corporate career with director level marketing and general management experience across 30 countries, with success in launching and growing Australian and international brands. Mr Moore's private company career saw him build a small technology based retail marketing business into the sector leader in Australia and New Zealand, with clients that included Apple, Woolworths and Coles.

Mr Moore's current non-executive responsibilities include the following roles: Chairman of the physical and digital events company Now Comms Asia Group based in Singapore, and Independent Non-Executive Director of InvestSMART (ASX:INV).

Whilst Mr Moore is not an Associate of the Sellers, he provides independent professional advisory services to Mr Mittoni from time to time.

9.8 Board decisions

Under the Company's constitution, the Chairman of the Board has a casting vote at Board meetings. That is, if there four Directors and only two Directors vote in favour of a motion, the Chairman will have the deciding vote.

As noted above in Section 9.3(b), upon Completion, TRUK will be granted various consultation, and approval rights relating to the Board and management of the Company, including consultation and approval rights over any future Chief Executive Officer or Managing Director and Chair of the Company. When coupled with the Company's obligation to ensure that the number of Directors does not exceed four and the casting vote of the Chairman on Board resolutions, this means the TRUK has consultation and approval rights with respect to the persons who have the capacity to control the Board. If the Company proceeds to appoint a person that is not approved by TRUK to the roles of

¹ See Section D9.3 above.

Chief Executive Officer or Managing Director and Chair of the Company, then the licence fees payable under the TRUK Licence Agreement will increase until approval is provided. Approval cannot be unreasonably withheld.

9.9 Alternatives Considered

The following alternatives to the Proposed Transactions have been considered but have been determined to be not feasible:

- (a) **(Reduction of overheads)** The Company has continually reduced overheads as revenues declined but have been unable to reduce them sufficiently to enable the business to return to profit.
- (b) **(Corporate restructure)** In FY20 the Company restructured and exited non-profitable product lines. The Directors have assessed that any further restructuring would result in the Company being unable to operate effectively.
- (c) **(Alternate funding)** Following recent debt write offs, it has been difficult for the Company to secure finance facilities. Any facilities that are able to be secured have been insufficient to fund the cashflow needs of the business. As such the Company has been supported by a \$12 million loan from the Company's major shareholder, Jaszac, provided at an interest rate of 12% (see Section 9.1(c)).
- (d) **(Capital markets funding)** The Company undertook a share purchase plan in December 2019 to raise further funds from shareholders, but this was not well supported and only raised approximately \$130,000.

9.10 Advantages and Disadvantages of the Proposed Transactions

9.10.1 Advantages of the Proposed Transactions

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on the Transaction Resolutions:

- (a) The Company will acquire a 100% interest in each of the Target Companies and therefore gain immediate access to a large and complementary product and brand portfolio.
- (b) The Target Companies have an established history as an online retailer of lifestyle products and accordingly are well positioned for growth due to TRUL acquiring an exclusive license to use the Toys R Us and Babies R Us brands within Australia and New Zealand.
- (c) The Acquisition is expected to expand the Company's online direct to consumer capabilities through the acquisition of two brands with significant brand equity and consumer awareness. These, combined with the Company's core strengths in successfully sourcing, marketing and distributing branded lifestyle products is expected to drive revenue and margin growth, return the business to profitability and grow shareholder value into the future.
- (d) There are expected to be significant operational savings to be derived from the centralisation of operational divisions, merging staff/teams and reducing fixed operating costs. The Sellers intend to consolidate staff and warehouse storage to fewer leases in order to conserve costs.
- (e) The Placement will enable the Company to:

- (i) fund the Proposed Transactions and the Company's growth strategy; and
- (ii) pay down the Company's existing debt to Jaszac;
- (f) The Independent Expert has concluded that the Proposed Transactions are not fair but reasonable to Non-Associated Shareholders. In the Independent Expert's opinion, despite not being fair, there are sufficient reasons for Shareholders to approve the Proposed Transactions in the absence of any superior alternative offer.
- (g) Approval of any of the Transactions Resolutions is subject to the passing of all the other Transaction Resolutions at the Meeting. Accordingly, the Transaction Resolutions should be considered collectively as well as individually. If any of the Transaction Resolutions are not passed, the Company will not have satisfied the Shareholder approval condition under the Share Sale Deed, and completion of the Placement and under the Conversion and Repayment Agreement, will not occur.
- (h) See the further advantages of the Proposed Transactions listed in section 11.10 of the Independent Expert's Report.
- (i) For the reasons for the Proposed Transactions, see Section 9.4.

9.10.2 **Disadvantages of the Proposed Transactions**

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on the Transaction Resolutions:

- (a) The issue of the Consideration Shares, the Conversion Shares, the TRUK Shares and the Placement Shares pursuant to the Proposed Transactions will dilute the interests of Shareholders. Section 10.3.6 sets out the dilutionary effect of the Proposed Transactions.
- (b) The dilution of Non-Associated Shareholders' interests reduces the ability of the existing Shareholders to influence the strategic direction of the Company.
- (c) The Sellers will have Voting Power in excess of 30%. In addition the Amended Licence Agreement may be terminated by TRUK for a change of control of the Company with significant restraints on trade applying to the Company following such termination (see Section 9.3 above). Either or both of these could dissuade a potential acquirer of the Company from making a takeover offer or other control proposal in the future. This could adversely affect the Company's Share price and reduce the opportunity to obtain a control premium in future. The Sellers' large potential shareholding might also reduce the liquidity in the Company's Shares.
- (d) TRUK will have disproportionate influence over the governance of the Company, despite only having a 0.14% interest in the Company. This influence arises from the Amended Licence Agreement granting TRUK various observer, consultation, and approval rights over any future Chief Executive Officer or Managing Director and Chair of the Company, and the Company agreeing to use best efforts to ensure that the number of Directors of the Company does not exceed four. This coupled with the Chair having a casting vote under the Company's constitution allows TRUK to have considerable influence over the governance of the Company.
- (e) The Target Companies are reliant on the continued involvement of Mr Mittoni in the business.

- (f) Sales of the Target Companies are reliant on the maintenance of the Amended Licence Agreement. See Section 9.3 for further detail on the terms of the Amended Licence Agreement.
- (g) There will be significant transaction costs associated with the Proposed Transactions.
- (h) See the further disadvantages of the Proposed Transactions listed in section 11.15 of the Independent Expert's Report.

10 RESOLUTION 8: APPROVAL FOR THE SELLERS TO ACQUIRE A RELEVANT INTEREST IN THE COMPANY OF UP TO 34.43%

10.1 Background to Resolution 8

Resolution 8 is an ordinary resolution which seeks Shareholder approval for issue of the Consideration Shares to the Sellers for the purposes of Chapter 2E and item 7 of section 611 of the Corporations Act.

10.2 Chapter 2E of the Corporations Act

The Sellers are Related Parties of the Company within the definition set out in Chapter 2E of the Corporations Act (see Section 2.7):

- (a) Mr Mittoni is a proposed Director of the Company;
- (b) Ms Georgousis is the spouse of Mr Mittoni (who in turn is a Related Party);
- (c) MFT Trustee is controlled by Mr Mittoni and Ms Georgousis (each of whom are Related Parties); and
- (d) HWT Trustee is controlled by Mr Mittoni and Ms Georgousis (each of whom are Related Parties).

Whilst there is an exception to the requirement to obtain Shareholder approval if the Financial Benefit is given on arm's length terms, given the other approvals that are required for the issue of the Consideration Shares to the Sellers, the Directors have determined that it is appropriate to seek Shareholder approval for the issue of the Consideration Shares for the purposes of Chapter 2E of the Corporations Act.

10.3 Regulatory Requirements for Chapter 2E of the Corporations Act

The issue of the Consideration Shares to the Sellers, as Related Parties, will confer Financial Benefits on the Sellers. The Company therefore seeks Shareholder approval in accordance with Chapter 2E of the Corporations Act. For this reason and for all other purposes, the following information is provided to Shareholders.

10.3.1 The Related Parties to whom the Financial Benefits are to be given

The proposed Financial Benefits are to be given to the Sellers, being Mr Mittoni, Ms Georgousis, MFT Trustee and HWT Trustee (or to the Sellers' nominees).

10.3.2 The nature of the Financial Benefits to be given

The issue of a total of 291,205,818 Consideration Shares to MFT Trustee and HWT Trustee in the following proportions:

- (a) 79,081,452 Consideration Shares to MFT Trustee; and
- (b) 212,124,366 Consideration Shares to HWT Trustee.

10.3.3 Interest of Directors

Mr Brookes, Ms Anderson and Mr Tripodi do not have any material personal interest in the outcome of Resolution 8 save for any interest that they may have solely in their capacity as a Shareholder and which interest they hold in common with the other Non-Associated Shareholders.

To the extent that the Directors hold any Shares, their respective percentage holdings of Shares will decrease upon completion of the issue of the Consideration Shares, the Conversion Shares, the Placement Shares and the TRUK Shares pursuant to the Proposed Transactions, in the same proportion as the holdings of the other Non-Associated Shareholders.

Details of the Shares and incentive rights of the Directors and their Associates as at the date of the Notice are as follows:

Holder	Shares (number)	Shares (%)	SARS	Listed Options	Unlisted Options
Ms Anderson	1,075,467	0.45%	NIL	NIL	NIL
Mr Brookes	900,000	0.37%	NIL	NIL	NIL
Mr Tripodi	NIL	NIL	NIL	NIL	NIL
Total	1,975,467	0.82%	NIL	NIL	NIL

In addition to Mr Mittoni's interest in Resolution 8 as a party to whom the Financial Benefits are to be given, both Mr Mittoni and Mr Moore, the proposed Directors, have an interest in the outcome of Resolution 8 by reason of their proposed appointment as Managing Director / Chief Executive Officer and Chairman (respectively) being conditional on the Transaction Resolutions being passed. Key details are set out below:

(a) **Mr Mittoni**

The Company has entered into an executive services contract with Mr Mittoni which will take effect from Completion, pursuant to which Mr Mittoni has agreed to be appointed as the Managing Director and Chief Executive Officer of the Company. The agreement will commence on Completion and can be terminated by either party by providing six months' written notice or immediately in a limited number of circumstances.

Mr Mittoni's remuneration package is to comprise:

- (i) a salary of \$300,000 per annum plus superannuation;
- (ii) the participation in the Company's short term incentive scheme, under which Mr Mittoni is eligible for a short-term incentive payment of up to a maximum of 35% of Mr Mittoni's salary (including superannuation), payment of which is subject to meeting certain performance targets; and
- (iii) subject to Shareholder approval under Resolution 12, the grant of Options (see Section 14).

(b) **Mr Moore**

The Company has entered into an executive services contract with Mr Moore which will take effect from Completion, pursuant to which Mr Moore has agreed to be appointed as Director and Chairman of the Board. The agreement will commence on Completion.

Mr Moore's remuneration package is to comprise:

- (i) a salary of \$90,000 per annum plus superannuation;

- (ii) subject to Shareholder approval under Resolution 13, the grant of Options (see Section 14); and
- (iii) subject to Shareholder approval under Resolution 14, \$20,000 per annum, to be paid as Deferred Share Awards under the Plan, with an issue price equivalent to the Company's closing market Share price on 1 November of each year (see Section 15).

10.3.4 Valuation

In assessing the fairness of the Acquisition, the Independent Expert has provided a valuation of a Share in the Company (representing the value of the Company combined with the Target Companies) post Completion on a non-controlling basis as between \$0.021 and \$0.025, with the preferred value being \$0.023.

If the Share valuation range on a post Completion non-controlling basis as determined by the Independent Expert were applied, this would result in the Consideration Shares having a theoretical value of between \$6,115,322.18 and \$7,280,145.45.

10.3.5 Trading history

In the 12 months prior to the date of this Notice, the Company's trading history is as follows:

Description	Date	Share Price
High	25 August 2020	\$0.075
Low	2 April 2020	\$0.007
Last	30 September 2020	\$0.065

10.3.6 Dilutionary effect

If all of the Consideration Shares, the Conversion Shares, the Placement Shares and the TRUK Shares are issued pursuant to the Proposed Transactions, the effect on the Shares on issue will be as show in the table below:

Table 1 – Existing Shares on issue

Holder	Shares (number)	Shares (%)
Jaszac	47,154,705	19.61%
Ms Anderson	1,075,467	0.45%
Mr Tripodi	NIL	NIL
Other Existing Shareholders	192,173,903	79.94%
Sellers	NIL	NIL
Placement Participants	NIL	NIL
Mr Moore	NIL	NIL
TRUK	NIL	NIL
Mr Abbey	NIL	NIL
Total	240,404,075	100.00%

Notes: Table based on issued capital as at the date of this Notice and assumes no Shares are issued.

Table 2 – Shares on issue on Completion of the Proposed Transactions

Holder	Shares (number)	Shares (%)
Jaszac	100,726,134	15.08%
Ms Anderson	1,075,467	0.13%
Mr Tripodi	NIL	NIL
Other Existing Shareholders	192,173,903	22.73%
Sellers	291,205,818	34.43%
Placement Participants	258,928,571	27.18%
Mr Moore	2,232,143	0.26%
TRUK	1,223,092	0.14%
Mr Abbey	454,545	0.05%
Total	845,787,530	100.00%

Notes:

- (1) Table based on issued capital as at the date of this Notice and assumes no equity securities are issued (other than the Consideration Shares, the Conversion Shares, the Placement Shares, the TRUK Shares, the Options and the SARs).
- (2) Assumes no Options are exercised and no SARs vest.
- (3) Mr Abbey is the CFO and Company Secretary and is being issued Shares under an agreement related to FY19 remuneration that is not related to the Proposed Transactions.

10.3.7 Taxation consequences

The Company has significant carried forward tax losses that may be available to offset taxable income in future years if the Company can satisfy one of the loss recoupment tests, being either the continuity of ownership test (**COT**) or similar business test (**SBT**).

Broadly the COT is satisfied if the Company has the same persons with the same interests, holding more than 50% of the Company's voting power, rights to dividends and rights to capital distributions at all times during the test period (being the start of the loss year to the end of the income year in which the losses are utilised). As a listed entity, the Company is able to utilise the modified COT rules under Division 166 of the *Income Tax Assessment Act 1997* (Cth). These rules provide that for direct stakes of less than 10%, there is no requirement to trace through to ultimate natural persons and are instead treated one single 'notional Shareholder'.

The Company has assessed that it currently satisfies the COT. Following issue of the Consideration Shares, Placement Shares, Conversion Shares and TRUK Shares the Company will reassess if the COT remains satisfied. If this is not the case, the Company will need to satisfy the SBT for carried forward losses to remain available to offset any future taxable income.

SBT allows businesses to access losses following a change in ownership where its business, while not the same, is similar having regard to:

- (a) the extent to which the assets that are used in its current business to generate assessable income were also used in its former business to generate assessable income;
- (b) the extent to which the activities and operations from which its current business generated assessable income were also the activities and operations from which its former business generated assessable income;
- (c) the identity of its current business and the identity of its former business; and

- (d) the extent to which any changes to the former business resulted from the development or commercialisation of assets, products, processes, services or marketing or organisational methods of the former business.

10.3.8 Any other information that is reasonably required by Shareholders to make a decision and that is known to the Company or any of its Directors

Other than as set out in these Explanatory Notes, the Directors are not aware of any other information that will be reasonably required by Shareholders to make a decision in relation to the issue of Consideration Shares to the Sellers as contemplated by Resolution 8.

10.4 Approval under item 7 of section 611 of the Corporations Act

The issue of the Consideration Shares will result in the Sellers together acquiring Relevant Interests in the Company's Shares which will potentially increase their combined Voting Power in the Company from below 20% to more than 20%. Unless Shareholder approval is obtained, an increase in Voting Power from below 20% to above 20% is prohibited by section 606 of the Corporations Act.

Accordingly, the Company is also seeking approval of its Shareholders under Resolution 8, for the purposes of item 7 of section 611 of the Corporations Act, to allow the Company to issue, in accordance with the terms of the Share Sale Deed, the Consideration Shares, which will result in an increase in the Sellers' combined Voting Power in the Company above the 20% threshold.

10.5 Information relating to the issue of the Consideration Shares

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in connection with obtaining approval under item 7 of section 611 of the Corporations Act. Shareholders are also referred to the Independent Expert's Report included in **Annexure A** to these Explanatory Notes.

10.5.1 Identity of the acquirer and Associates

In respect of Resolution 8, the identity of the persons making the acquisition (being the acquisition of the Consideration Shares) are MFT Trustee and HWT Trustee (as both Sellers and nominees of Mr Mittoni and Ms Georgousis).

Currently, the Sellers together have no Relevant Interests in the Company.

10.5.2 Relevant Interests and Voting Power

The Relevant Interests of the Sellers in Shares and Voting Power (both current and following the issue of the Consideration Shares, the Conversion Shares, the Placement Shares and the TRUK Shares pursuant to the Proposed Transactions) are set out in the table below.

Date	Relevant Interest in Shares*	Voting power
As at the date of the Notice	NIL	NIL%
At Completion of the Proposed Transactions	291,205,818	34.43%

Further details on the Voting Power of the Sellers are set out in the Independent Expert's Report.

The maximum Relevant Interests that the Sellers will hold after Completion of the Proposed Transactions is 291,205,818 Shares, and the maximum Voting Power that the Sellers will hold is 34.43%. This figure represents a maximum increase in Voting Power of 34.43% (being the difference between NIL% and 34.43%).

The above calculations show the maximum potential increase in the Sellers' Voting Power as a result of the Proposed Transactions. The calculations assume that the Consideration Shares will be issued to the Sellers (or to their Associates).

The following assumptions have been made in calculating the above:

- (a) the Company has 240,404,075 Shares on issue as at the date of the Notice;
- (b) the Company issues 258,928,571 Placement Shares (including the 2,232,143 Shares to be issued to Mr Moore if Resolution 15 is passed and a maximum 26,785,714 Shares issued to Jaszac (see Section 11.1));
- (c) the Company issues 53,571,429 Conversion Shares to Jaszac;
- (d) the Company issues 1,223,092 TRUK Shares to TRUK;
- (e) the Company issues 454,545 shares to Mr Abbey (not related to the Proposed Transactions or subject to Shareholder approval);
- (f) the Options issued to Mr Mittoni and Mr Moore are not exercised;
- (g) the SARs issued to Ms Anderson and Mr Tripodi are not converted to Shares;
- (h) neither the Sellers nor any of their Associates acquire any additional Shares, other than those contemplated under the Notice; and
- (i) the Company does not issue any additional Shares other than those contemplated under the Notice.

To the extent that any of these assumptions are not made out, then the Sellers' Voting Power in the Company may not be as described in the above table.

10.5.3 Reasons for the Proposed Transactions including the issue of the Consideration Shares

The reasons for the Proposed Transactions (including the issue of the Consideration Shares) are set out in Section 9.4 of these Explanatory Notes.

10.5.4 Date of the proposed issue of securities

The issue of the Consideration Shares will occur at Completion, which is expected to take place within three Business Days of the Meeting.

10.5.5 Material terms of the Proposed Transactions

The material terms of the Proposed Transactions (including the issue of the Consideration Shares) are set out in Sections 9.1, 9.2, 9.3 and 9.7 of these Explanatory Notes.

10.5.6 Other relevant agreements

Other than set out in these Explanatory Notes, there are no agreements between the Company and the Sellers and their Associates.

10.5.7 Sellers' intentions

Other than as disclosed elsewhere in these Explanatory Notes, the Sellers have informed the Company that they:

- (a) have no present intention of making any significant changes to the business of the Company including the Target Companies;
- (b) have no present intention to inject further capital into the Company;

- (c) intend that the Board and management changes will be as detailed in Section 9.7 of these Explanatory Notes;
- (d) have no present intention of making changes regarding the future employment of the present employees of the Company or the Target Companies (other than as disclosed in Section 9.10.1(d));
- (e) do not intend to redeploy any fixed assets of the Company or the Target Companies (other than as disclosed in Section 9.10.1(d));
- (f) do not intend to transfer any property between the Company or the Target Companies and the Sellers (or their Associates); and
- (g) have no intention to change the Company's existing policies in relation to financial matters or dividends.

These intentions are based on information concerning the Company, its business and the business environment which is known to the Sellers at the date of the Notice.

These present intentions may change as new information becomes available, as circumstances change or in the light of all material information, facts and circumstances necessary to assess the operational, commercial, taxation and financial implications of those decisions at the relevant time.

10.5.8 Alternatives considered

See Section 9.9 for the alternatives to the Proposed Transactions considered by the Company. The Company has determined that such alternatives are not feasible.

10.5.9 Advantages and Disadvantages of the Proposed Transactions

Please refer to Section 9.10 of these Explanatory Notes for a summary of advantages and disadvantages of the Proposed Transactions.

10.6 No additional approval under Listing Rule 7.1 or Listing Rule 10.11

As noted above, Listing Rule 7.1 provides that a listed company must not, subject to certain exceptions, issue during any 12 month period any equity securities, including securities with rights of conversion to equity, if the number of those securities exceeds 15% of the total number of ordinary securities on issue at the commencement of that 12 month period.

In addition, Listing Rule 10.11 states that entities must not, subject to certain exceptions, issue or agree to issue equity securities to certain persons without the approval of its shareholders. Those persons include Related Parties and a Substantial (10%+) Holder.

These restrictions do not apply in certain circumstances, including in relation to an issue of equity securities approved for the purposes of item 7 of section 611 of the Corporations Act.

If Shareholders approve Resolution 8, separate approval will not be required under Listing Rules 7.1 or 10.11 for the issue of the Consideration Shares to HWT Trustee and MFT Trustee (as both Sellers and nominees of the Sellers, Mr Mittoni and Ms Georgousis).

11 RESOLUTION 9: APPROVAL OF ISSUE OF SHARES UNDER THE PLACEMENT

11.1 Background to Resolution 9

The Placement involves the issue of up to 258,928,571 Shares (including the 2,232,143 Shares to be issued to Mr Moore if Resolution 15 is passed) (**Placement Shares**) at an issue price of 11.2 cents per Share to raise up to \$29 million. Canaccord Genuity (Australia) Limited is the lead manager and underwriter to the Placement (**Underwriter**) and the Placement will be fully underwritten.

Jaszac has indicated that it may participate in the Placement up to a maximum amount of \$3 million (26,785,714 Shares), meaning that Jaszac's maximum relevant interest in the Company's Shares on Completion of the Proposed Transactions (including after the issue of the Conversion Shares) will be 15.08%.

Resolution 9 seeks Shareholder approval for the purpose of Listing Rule 7.1 and for all other purposes for the issue of the Placement Shares without using the Company's placement capacity under Listing Rule 7.1, and is conditional on all other Transaction Resolutions being approved.

Please refer to Section 9.10 for the advantages and disadvantages of the Proposed Transactions (including the issue of the Placement Shares).

11.2 Summary of Underwriting Agreement

On 23 October 2020, the Company and the Underwriter entered into the Underwriting Agreement, which includes the following key terms:

- (a) the Company will conduct the Placement to raise \$29 million by issuing Shares at an issue price of 11.2 cents (\$0.112) per Share;
- (b) the Placement will only be open to those persons in Australia to whom a disclosure document is not required to be provided to under the Corporations Act and institutional and professional investors in certain other jurisdictions who do not need disclosure documentation under the laws of those jurisdictions;
- (c) the Placement will be conditional on Completion occurring, and subject to Shareholders approving all Transaction Resolutions;
- (d) Shares under the Placement will be issued at Completion which must be within three Business Days after the date of the Meeting;
- (e) the Underwriter may appoint sub-underwriters to sub-underwrite the Placement;
- (f) the Underwriter's obligation to underwrite the Placement is conditional upon various conditions, including the Underwriter conducting due diligence on the Company and the Target Companies, the Share Sale Deed and Conversion and Repayment Agreement not being terminated prior to allotment of shares under the Placement and other customary conditions for a transaction of this nature; and
- (g) the Underwriter will be paid fees equal to 5% of the gross proceeds raised under the Placement for acting as the lead manager and Underwriter.

11.3 Additional disclosure of information required by Listing Rule 7.3 in respect of Resolution 9

Listing Rule 7.3 and ASX Guidance Note 21 require that the following additional information be provided to Shareholders in relation to the proposed issue of Placement Shares under Resolution 9:

- (a) A range of sophisticated and professional investors in Australia have committed to participate in the Placement. They were identified by the Underwriter and the Company based on soundings with the existing holders of significant parcels of the Company's Shares (and their Associates), as well as other investors who had previously indicated to the Underwriter or the Company an interest in investing in the Company.
- (b) A maximum of 258,928,571 Placement Shares will be issued. (This does not include the Shares to be issued under Resolutions 8, 10 and 11).

- (c) The Placement Shares will be issued at Completion which is expected to be within three Business Days after the Meeting (and in any case, within 3 months after the date of the Meeting).
- (d) The Placement Shares will be issued at 11.2 cents (\$0.112) each.
- (e) The Placement Shares will rank equally in all respects with the Company's existing Shares on issue.
- (f) As noted in Section 9.6 above, the purpose of the Placement is to raise funds for:
 - (i) working capital to fund growth of the merged group and the costs associated with the Proposed Transactions;
 - (ii) development of e-commerce and associated intellectual property and technology;
 - (iii) marketing and brand development;
 - (iv) paying down part of the Company's debt to Jaszac under the Loan Agreement; and
 - (v) development of logistics, warehouse and robotic capabilities.

12 RESOLUTION 10: APPROVAL FOR ISSUE OF SHARES UNDER THE LOAN CONVERSION AND REPAYMENT AGREEMENT

12.1 Background to Resolution 10

Under the Conversion and Repayment Agreement, the Company has agreed to issue 53,571,429 Conversion Shares to Jaszac at a deemed issue price of 11.2 cents per Conversion Share in order to convert part of the Loan into Shares.

As noted in Section 2.2, Listing Rule 7.1 provides that a listed company must not, subject to certain exceptions, issue during any 12 month period any equity securities, if the number of those securities exceeds 15% of the total number of ordinary securities on issue at the commencement of that 12 month period.

Listing Rule 10.1 states that, subject to certain exceptions, entities must not dispose of a substantial asset to certain persons without the approval of its shareholders. Those persons include Related Parties and a Substantial (10%+) Holder. Resolution 10 seeks Shareholder approval under Listing Rules 7.1 and 10.1 for the issue of Conversion Shares and is conditional on all other Transaction Resolutions being approved.

As stated above, Jaszac has indicated that it may participate in the Placement up to a maximum amount of \$3 million (26,785,714 Shares).

Pease refer to Section 9.10 for the advantages and disadvantages of the Proposed Transactions (including the issue of the Conversion Shares).

12.2 Additional information required by Listing Rules 7.3 and 10.5

Listing Rule 7.3, Listing Rule 10.5 and ASX Guidance Note 21 require that the following additional information be provided to Shareholders in relation to the proposed issue of Conversion Shares under Resolution 10:

- (a) The Conversion Shares will be issued to Jaszac, which is a Substantial (10%+) Holder in the Company, as it currently holds a Relevant Interest in 47,154,705 Shares and has Voting Power of 19.61%. Upon Completion, Jaszac's interests in the Company will be

diluted, so that it will hold a Relevant Interest in 100,726,134 Shares and have Voting Power of 11.91%.

- (b) The assets to be disposed of by the Company are Shares, with a maximum of 53,571,429 Conversion Shares to be issued to Jaszac. (This does not include the Shares to be issued under Resolutions 8, 9 and 11).
- (c) The consideration for the issue of the Conversion Shares is the release of the Company from \$6 million of the outstanding indebtedness of the Company under the Loan Agreement, and accordingly will extinguish the Company's liability to repay Jaszac cash in that amount.
- (d) The Conversion Shares will be issued at Completion which is expected to be within three Business Days of the Meeting (and in any case, within 3 months after the date of the Meeting).
- (e) The Conversion Shares will be deemed to be issued at 11.2 cents (\$0.112) each.
- (f) The Conversion Shares will rank equally in all respects with the Company's existing Shares on issue.
- (g) The purpose of the issue of the Conversion Shares is to reduce the Company's debt by converting \$6 million of the Company's existing indebtedness to Jaszac into equity.

12.3 Advantages and Disadvantages of the Proposed Transactions

Please refer to Section 9.10 of these Explanatory Notes for a summary of advantages and disadvantages of the Proposed Transactions (including the Conversion and Repayment Agreement).

12.4 Independent Expert

The Independent Expert has concluded that the Proposed Transactions including the issue/disposal of the Conversion Shares are not fair but reasonable to Non-Associated Shareholders. In the Independent Expert's opinion, the position of Shareholders if the disposal is approved (as part of the Proposed Transactions) is more advantageous than their position if the disposal is not approved, in the absence of any superior alternative offer. See sections 2, 10 and 11 of the Independent Expert's report.

13 RESOLUTION 11 – APPROVAL OF THE ISSUE OF SHARES TO TRUK

13.1 Background

Resolution 11 is an ordinary resolution which seeks Shareholder approval for the issue of the 1,223,092 TRUK Shares (**TRUK Shares**) to TRUK (**TRUK Shares**) for the purposes of Chapter 2E of the Corporations Act and Listing Rule 7.1 and for all other purposes, and is conditional on all other Transaction Resolutions being approved.

The TRUK Shares are being issued to TRUK in consideration for its promises made under the Amended Licence Agreement, which are summarised in Section 9.3.

13.2 Chapter 2E of the Corporations Act

As set out in Section 2.6, a Related Party of the Company includes:

- (a) any entity that acts in concert with a Related Party of the Company on the understanding that the Related Party will receive a Financial Benefit if the Company gives that entity a Financial Benefit; and

- (b) any entity that controls (or is reasonably likely to control) the Company.

TRUL is one of the Target Companies and is currently controlled by Mr Mittoni (one of the Sellers and a proposed Director of the Company). For the reasons set out in Section 10.2, Mr Mittoni is a Related Party of the Company.

Upon Completion, under the Share Sale Deed:

- (a) the Amended Licence Agreement will take effect;
- (b) Mr Mittoni will receive the Consideration Shares and be appointed as Managing Director and Chief Executive Officer of the Company; and
- (c) TRUK will receive the TRUK Shares.

TRUK and Mr Mittoni have shared common objectives in negotiating the terms of the Amended Licence Agreement to facilitate the success of the Proposed Transactions and have therefore been acting in concert with a direct result being that both TRUK and Mr Mittoni will receive a Financial Benefit from the Company.

Further, pursuant to the Amended Licence Agreement, TRUK will be granted, amongst other things, consultation and approval rights in relation to the appointment of any future Chief Executive Officer, Managing Director or Chairman of the Company, which may give TRUK the ability to influence the governance structure of the Company going forward (see Section 2.7)). As noted above, under the Company's constitution, the Chairman of the Board has a casting vote at Board meetings. That is, if there are four Directors and only two Directors vote in favour of a motion, the Chairman will have the deciding vote. As TRUK has power to approve the appointment two Directors to the Board (including the Chairman), it will in turn have power to approve the appointment of the persons who control the decisions of the Board.

Whilst there is an exception to the requirement to obtain Shareholder approval if the Financial Benefit is given on arm's length terms, the Directors have determined given the nature of the proposed arrangements it is appropriate to seek Shareholder approval for the issue of the TRUK Shares for the purpose of Chapter 2E of the Corporations Act.

13.3 Regulatory Requirements for Chapter 2E of the Corporations Act

For the reasons set out above, the issue of the TRUK Shares to TRUK may confer Financial Benefits on TRUK. The Company therefore seeks the approval of Shareholders in accordance with Chapter 2E of the Corporations Act. For this reason and for all other purposes the following information is provided to Shareholders.

- 13.3.1 The Related Parties to whom the Financial Benefits are to be given
TRUK (or its nominees).

- 13.3.2 The nature of the Financial Benefits to be given
The issue of 1,223,092 TRUK Shares to TRUK (or its nominees).

- 13.3.3 Interest of Directors
The interest of Directors in respect of Resolution 11 are as set out in Section 10.3.3.

- 13.3.4 Valuation
If the Share valuation range on a post Completion non-controlling basis as determined by the Independent Expert were applied (see Section 10.3.4), this would result in the Shares having a theoretical value of between \$0.021 and \$0.025.

13.3.5 Trading History

See the Company's trading history for the last 12 months at Section 10.3.5.

13.3.6 Dilutionary effect

If the Transaction Resolutions are approved, and the TRUK Shares are issued to TRUK, the effect on the current issued capital of the Company will be as shown in the tables set out in Section 10.3.6.

13.3.7 Any other information that is reasonably required by Shareholders to make a decision and that is known to the Company or any of its Directors

Other than as set out in these Explanatory Notes, the Directors are not aware of any other information that will be reasonably required by Shareholders to make a decision in relation to the Financial Benefits contemplated by Resolution 11.

13.4 Listing Rule 7.1

As noted above, Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities, including securities with rights of conversion to equity, if the number of those securities exceeds 15% of the total number of ordinary securities on issue at the commencement of that 12 month period. Resolution 11 therefore seeks Shareholder approval for the issue of the TRUK Shares, without using up any of the Company's issuing capacity under Listing Rule 7.1.

Listing Rule 7.3 and ASX Guidance Note 21 require that the following additional information be provided to Shareholders in relation to the approval of proposed issue of TRUK Shares under Resolution 9 for the purposes of Listing Rule 7.1:

- (a) The TRUK Shares will be issued to TRUK, which is a Related Party of the Company for the reasons set out in Section 13.2.
- (b) The maximum number of TRUK Shares to be issued is 1,223,092. (This does not include the Shares to be issued under Resolutions 8, 9 and 10.)
- (c) The TRUK Shares will rank equally in all respects with the Company's existing Shares on issue.
- (d) All of the TRUK Shares will be issued at Completion which is expected to be within three Business Days of the Meeting (and, in any case, no later than 1 month after this Meeting or such later date as approved by ASX).
- (e) The TRUK Shares will be issued at the deemed issue price equal to the issue price under the Placement, being 11.2 cents (\$0.112) each (representing the issue of approximately US\$100,000 worth of Shares, at a foreign exchange rate of \$1.00 to US\$0.73 (being the exchange rate agreed by the parties).
- (f) No funds will be raised from the issue of the TRUK Shares to TRUK, as the TRUK Shares are being issued for no monetary consideration.
- (g) TRUK and its Associates do not currently hold any equity securities in the Company.
- (h) The purpose of the issue of TRUK Shares to TRUK is in consideration for the promises made by TRUK under the Amended Licence Agreement.

14 RESOLUTIONS 12 AND 13 – GRANT OF OPTIONS TO PROPOSED DIRECTORS OF THE COMPANY (MR MITTONI AND MR MOORE)

14.1 General

Resolutions 12 and 13 are ordinary resolutions which seek Shareholder approval for the purposes of Listing Rule 10.14 and for all other purposes, for the grant of Options (including the issue of Shares on the exercise of those Options) to proposed Directors of the Company, Mr Mittoni and Mr Moore (or their nominees) under the Plan, on the terms set out below.

Resolution 12 also seeks Shareholder approval for the purposes of item 7 of section 611 of the Corporations Act in respect of the Options proposed to be granted to Mr Mittoni.

14.2 Background to Resolutions 12 and 13

Subject to Completion of the Proposed Transactions:

- (a) Mr Mittoni will be appointed as Managing Director and Chief Executive Officer of the Company; and
- (b) Mr Moore will be appointed as a Non-Executive Director and Chairman of the Company.

For more information regarding Mr Mittoni and Mr Moore and their appointment, please refer to Section 9.7.

It is proposed that at the time of their appointment, the Company will grant Options to each of Mr Mittoni and Mr Moore as a long term incentive under the Plan.

The grant of Options to Mr Mittoni and Mr Moore forms part of the Company's long term incentive objectives to encourage Directors to have a greater involvement in the achievement of the Company's objectives and to provide an incentive to strive to that end by participating in the future growth and prosperity of the Company through Share ownership.

Furthermore, the grant of Options to Mr Mittoni and Mr Moore is viewed as a cost effective and efficient reward and incentive of the Company as opposed to alternative forms of incentive, such as the payment of additional cash compensation.

14.3 Listing Rule 10.14

Listing Rule 10.14 requires a company to obtain shareholder approval for the issue of equity securities, including options, to Related Parties of the company such as proposed directors. The approval requirements are explained in Section 2.6.

As set out in Section 2.7, Chapter 2E of the Corporations Act prohibits the Company from giving a Financial Benefit to a Related Party unless the benefit falls within a prescribed exception. Relevantly, there is an exception to the requirement to obtain shareholder approval if the Financial Benefit is reasonable remuneration to a Related Party as an officer or employee of the Company. While Mr Mittoni and Mr Moore are Related Parties of the Company, the Directors have determined that the exception is satisfied for the purposes of Chapter 2E and it is not necessary to obtain Shareholder approval, as the Options are being granted to Mr Mittoni and Mr Moore as a component of their total remuneration package for services provided to the Company.

14.4 Details of the proposed grant of Options

The Company proposes to grant Options to Mr Mittoni and Mr Moore in three tranches on the terms set out below:

14.4.1 Mr Mittoni

	Tranche 1	Tranche 2	Tranche 3
Number	The number of Options will equal to 1% of the total number of Shares on issue on the date that Mr Mittoni and Mr Moore are appointed as Directors (Commencement Date)	The number of Options will equal to 1% of the total number of Shares on issue on 1 November 2021	The number of Options will equal to 1% of the total number of Shares on issue on 1 November 2022
Exercise price	13.8c	16.6c	19.9c
Grant Date / Vesting Date	Commencement Date	The later of 1 November 2021 or 1 Business Day after the Company's 2021 annual general meeting	The later of 1 November 2021 or 1 Business Day after the Company's 2022 annual general meeting
Expiry date	1 November 2023	1 November 2024	1 November 2025

14.4.2 Mr Moore

	Tranche 1	Tranche 2	Tranche 3
Number	The number of Options will equal to 0.2% of the total number of Shares on issue on the Commencement Date	The number of Options will equal to 0.2% of the total number of Shares on issue on 1 November 2021	The number of Options will equal to 0.2% of the total number of Shares on issue on 1 November 2022
Exercise price	13.8c	16.6c	19.9c
Grant Date / Vesting Date	Commencement Date	The later of 1 November 2021 or 1 Business Day after the Company's 2021 annual general meeting	The later of 1 November 2022 or 1 Business Day after the Company's 2022 annual general meeting
Expiry date	1 November 2023	1 November 2024	1 November 2025

The Options will be issued for nil consideration and will only be subject to a vesting condition relating to the participant's continued employment with the Company. The Options must be exercised before their Expiry Date, or they will lapse. On the exercise of an Option, the holder must pay to the Company the relevant exercise price multiplied by the number of Options being exercised by the holder. The Company will issue the holder with a Share for each Option that the participant validly exercises.

14.5 What is the value of the Options?

Based on a Black Scholes valuation and using the inputs in the table below the Company estimates the fair value of the Options as follows:

	Tranche 1	Tranche 2	Tranche 3
Exercise price	13.8c	16.6c	19.9c
Grant Date / Vesting Date	23-Nov-20	1-Nov-21	1-Nov-22
Expiry date	1-Nov-23	1-Nov-24	1-Nov-25
Market Price 22-Sep-20	6.3c	6.3c	6.3c
Risk-Free Interest Rate	0.88%	0.88%	0.88%
Annual Dividend Yield	0.00%	0.00%	0.00%
Volatility	120.59%	120.59%	120.59%
Option Value (per Option)	3.63c	4.17c	4.50c

Consequently, the estimated value of the proposed grants of Options to Mr Mittoni and Mr Moore are as set out in the table below:

		Tranche 1	Tranche 2	Tranche 3	Total
Mr Mittoni	Number of Options	8,457,875	8,559,370	8,662,082	25,679,327
	Estimated value of Options granted	\$307,021	\$356,926	\$389,794	\$1,053,741
Mr Moore	Number of Options	1,691,575	1,711,874	1,732,416	5,135,865
	Estimated value of Options granted	\$61,404	\$71,385	\$77,959	\$210,748

Notes

- (1) Assumes the total number of Shares on issue post Completion is 845,787,530.
- (2) Assumed no further Shares are issued during the period that the Options are granted. Additional Share issues will increase the number of Options that Mr Mittoni and Mr Moore receive.

14.6 Additional information required by Listing Rule 10.15 in respect of Resolutions 12 and 13

Listing Rule 10.15 requires the following additional information be provided to Shareholders in relation to the proposed issue of Options under Resolutions 12 and 13:

- (a) As at the date of the Notice, neither Mr Mittoni nor Mr Moore receive any remuneration from the Company.
- (b) Subject to Shareholder approval of each of the Transaction Resolutions, upon appointment, Mr Mittoni's total remuneration package will be as follows:
 - (i) annual salary of \$300,000 plus superannuation;
 - (ii) participation in the Company's short term incentive scheme, under which Mr Mittoni is eligible for a short-term incentive payment of up to a maximum of 35% of Mr Mittoni's salary (including superannuation), payment of which is subject to meeting certain performance targets; and

- (iii) long-term incentive of Options with an estimated total value of \$1,053,741 in respect of 2020, 2021 and 2022 (see Section 14.5).
- (c) Subject to Shareholder approval of each of the Transaction Resolutions, upon appointment, Mr Moore's total remuneration package will be as follows:
 - (i) annual Directors fees of \$90,000 plus superannuation;
 - (ii) long-term incentive of Options with an estimated total value of \$210,748 in respect of 2020, 2021 and 2022 (see Section 14.5); and
 - (iii) subject to Shareholder approval under Resolution 14, \$20,000 per annum in Deferred Share Awards in the Company under the Plan, with an issue price equivalent to the closing market Share price on 1 November each year.
- (d) Neither Mr Mittoni nor Mr Moore have, to date, been issued any equity securities under the Plan.
- (e) If Shareholders approve the Transaction Resolutions, the relevant Options will be issued within three Business Days of the Grant Dates set out in the tables in Section 14.4 above (and in any event within three years after the Meeting).
- (f) The key terms of the Plan are summarised at **Annexure B** to these Explanatory Notes.
- (g) Neither Mr Mittoni nor Mr Moore will receive any loan from the Company in connection with the grant of Options under Resolutions 12 and 13.
- (h) Details of any equity securities issued to Mr Mittoni or Mr Moore under the Plan will be published in the Company's annual report relating to the period in which they were issued, along with a statement that Shareholder approval for the issue was obtained under Listing Rule 10.14.
- (i) Any additional persons covered by Listing Rule 10.14 who become entitled to participate in an issue of equity securities under the Plan after Resolutions 12 and 13 are approved and who are not named in the Notice will not participate until Shareholder approval is obtained under Listing Rule 10.14.

14.7 Approval under item 7 of section 611 of the Corporations Act

As stated in Section 10.5.2, Completion of the Proposed Transactions may result in the Sellers (which include Mr Mittoni) together acquiring Relevant Interests in the Shares which will potentially increase their Voting Power in the Company to more than 34.43%.

The initial grant of the Options pursuant to Resolution 12 will not result in Mr Mittoni acquiring a Relevant Interest in any issued voting Shares in the Company. However on issue of any Shares on exercise of the Options, Mr Mittoni (or his nominees) will acquire a Relevant Interest in those Shares. Accordingly, because the Sellers together (of which Mr Mittoni is one) will have Voting Power of more than 20% in the Company after Completion of the Proposed Transactions, any increase in any of their Voting Power will be prohibited by section 606 of the Corporations Act unless a relevant exemption applies (see Section 2.8).

As set out in Section 2.8.4, item 7 of section 611 of the Corporations Act exempts an acquisition agreed to by resolution passed at a general meeting on which no votes were cast in favour of the resolution by the person proposing to make the acquisition or their Associates.

Accordingly, Resolution 12 also seeks approval for the issue of Shares upon exercise of the Options by Mr Mittoni (or his nominee) for the purposes of, amongst other things, item 7 of section 611 of the Corporations Act.

14.8 Information relating to the acquisition of Shares

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for the purposes of item 7 of section 611 of the Corporations Act. Shareholders are also referred to the Independent Expert's Report included in Annexure A.

14.8.1 Identity of the acquirer and its Associates

In respect of Resolution 12, the identity of the person to make the acquisition of Shares upon exercise of the Options is Mr Mittoni (or his nominee).

14.8.2 Relevant Interest and Voting Power

The Relevant Interests of Mr Mittoni and his Associates (including the other Sellers) in the voting Shares in the Company and Voting Power (both current, and following the issue of the Consideration Shares, the Conversion Shares, the Placement Shares and the TRUK Shares pursuant to the Proposed Transactions) are as set out in Section 10.5.2.

The following table sets out the Relevant Interests of the Sellers in Shares and Voting Power as at the date of the Notice; following the issue of the Consideration Shares, the Conversion Shares, the Placement Shares, the TRUK Shares and the Options contemplated by the Notice; and assuming exercise of all of the Options issued to Mr Mittoni and Mr Moore.

Date	Relevant Interest in Shares	Voting power
As at the date of the Notice	NIL	NIL%
At Completion of the Proposed Transactions	291,205,818	34.43%
Upon exercise of the Options	316, 885,145	36.15%

As set out above, in the event that Mr Mittoni exercises all Options (assuming that the Proposed Transactions are completed and no other Shares or Options are issued), Mr Mittoni could have a maximum Voting Power of up to 36.15%.²

The following assumptions have been made in calculating the above:

- (a) the Company has 240,404,075 Shares on issue as at the date of the Notice;
- (b) the Company issues 258,928,571 Placement Shares (including the 2,232,143 Shares to be issued to Mr Moore if Resolution 15 is passed and a maximum 26,785,714 Shares issued to Jaszac);
- (c) the Company issues 53,571,429 Conversion Shares to Jaszac;
- (d) the Company issues 1,223,092 TRUK Shares to TRUK;
- (e) the Company issues 454,545 Shares to Mr Abbey (not related to the Proposed Transactions or subject to Shareholder approval);
- (f) in the case of the calculation of the Voting Power following the exercise of the Options, all Options issued to Mr Mittoni and Mr Moore are exercised;
- (g) the SARs issued to Ms Anderson and Mr Tripodi are not converted to Shares;

² This does not take into account the issue of any Shares on the vesting of SARs.

- (h) neither the Sellers nor any of their Associates acquire any additional Shares, other than those contemplated by the Notice; and
- (i) the Company does not issue any additional Shares other than those contemplated by the Notice.

To the extent that any of these assumptions are not made out, then the Sellers' Voting Power in the Company may not be as described in the above table.

14.8.3 Reason for the issue of Shares

The reason for the issue of the Shares to Mr Mittoni is due to the exercise of the Options which are to be issued to Mr Mittoni as part of his proposed total remuneration package, as a result of his appointment as Managing Director and Chief Executive Officer (with such appointment being subject to all Transaction Resolutions being passed).

14.8.4 Date of proposed issue of equity securities

The Options may be exercised into Shares at any time between the Vesting Date and the expiry date applicable to the relevant tranche of Options.

14.8.5 Material terms of Options

The material terms of the Options are set out in Section 14.4 above.

14.8.6 Other relevant agreements

Other than as described in these Explanatory Notes, there are no agreements between the Company and Mr Mittoni (or his Associates).

14.8.7 Mr Mittoni's intentions

Mr Mittoni has informed the Company that he has the same intentions as the Sellers as set out in Section 10.5.7.

14.9 No additional approval under Listing Rule 7.1

As noted above, Listing Rule 7.1 provides that a listed company must not, subject to certain exceptions, issue during any 12 month period any equity securities, including securities with rights of conversion to equity, if the number of those securities exceeds 15% of the total number of ordinary securities on issue at the commencement of that 12 month period.

These restrictions do not apply in certain circumstances, including in relation to an issue of equity securities approved for the purposes of Listing Rule 10.14 or item 7 of section 611 of the Corporations Act.

If Shareholders approve Resolution 12 and 13, separate approval will not be required under Listing Rule 7.1 for the issue of the Options (or any Shares on exercise of those Options).

15 RESOLUTION 14 – GRANT OF DEFERRED SHARE AWARDS TO PROPOSED DIRECTOR OF THE COMPANY (MR MOORE)

15.1 General

Resolution 14 is an ordinary resolution which seeks Shareholder approval for the purposes of Listing Rule 10.14 and for all other purposes, for the grant of Deferred Share Awards (including the issue of Shares on the vesting of those Deferred Share Awards) to a proposed Director of the Company, Mr Moore under the Plan, on the terms set out below.

15.2 Background to Resolution 14

Subject to Completion of the Proposed Transactions, Mr Moore will be appointed as a Non-Executive Director and Chairman of the Company. For more information regarding Mr Moore and his appointment, please refer to Section 9.7.

It is proposed that at the time of his appointment, the Company will grant Deferred Share Awards to Mr Moore which form part of his remuneration for 2020, 2021 and 2022 in lieu of an annual cash payment of \$20,000.

A Deferred Share Award is a right to be issued Shares at a future date. The grant of Deferred Share Awards to Mr Moore will enable the Company to keep cash payments to a minimum and to provide incentives which are linked to the performance of the Company.

The Plan enables the Company to issue Deferred Share Awards in respect of Shares to non-executive Directors of the Company in lieu of other forms of remuneration on such terms determined by the Board from time to time.

15.3 Details of the proposed grants of Deferred Share Awards

It is proposed that Mr Moore will be granted Deferred Share Awards to with a grant value of \$20,000 per annum. The Deferred Share Awards will be issued for nil consideration.

The Deferred Shares Awards will vest in three tranches as set out in the table below:

	Tranche 1	Tranche 2	Tranche 3
Grant Value	\$20,000	\$20,000	\$20,000
Vesting Date	Commencement Date	The later of 1 November 2021 or 1 Business Day after the Company's 2021 annual general meeting	The later of 1 November 2022 or 1 Business Day after the Company's 2022 annual general meeting
Number of Shares on vesting	Shares with a Market Value of \$20,000 on the Vesting Date	Shares with a Market Value of \$20,000 on the Vesting Date	Shares with a Market Value of \$20,000 on the Vesting Date

The Deferred Share Awards will automatically convert to Shares with a Market Value of \$20,000 on the relevant Vesting Date, subject only to Mr Moore being a Director of the Company (and not having tendered his resignation) on that date.

15.4 Additional information required by Listing Rule 10.15 in respect of Resolutions 14

Listing Rule 10.15 requires the following additional information be provided to Shareholders in relation to the proposed issue of Deferred Share Awards to Mr Moore:

- (a) As at the date of the Notice, Mr Moore does not receive any remuneration from the Company.
- (b) Subject to Shareholder approval of each of the Transaction Resolutions, upon appointment, Mr Moore's total remuneration package will be as follows:
 - (i) annual Director's fees of \$90,000 plus superannuation;
 - (ii) long-term incentive of Options with an estimated total value of \$212,609 in respect of 2020, 2021 and 2022 (see Section 14.5); and

- (iii) subject to Shareholder approval of Resolution 14, Deferred Share Awards with a value of \$20,000 per annum.
- (c) Mr Moore has not been issued any equity securities under the Plan.
- (d) If Shareholders approve the Transaction Resolutions, the Deferred Share Awards will be issued on the Commencement Date which is expected to be within three Business Days of Completion. The Shares to be issued on vesting of the Deferred Share Awards will be issued within three Business Days of the relevant Vesting Date (and in any event within three years after the Meeting).
- (e) The key terms of the Plan are summarised at **Annexure B** to these Explanatory Notes.
- (f) Mr Moore will not receive any loan from the Company in connection with the grant of Deferred Share Awards under Resolution 14.
- (g) Details of any equity securities issued to Mr Moore under the Plan will be published in the Company's annual report relating to the period in which they were issued, along with a statement that Shareholder approval for the issue was obtained under Listing Rule 10.14.
- (h) Any additional persons covered by Listing Rule 10.14 who become entitled to participate in an issue of equity securities under the Plan after Resolution 14 is approved and who are not named in the Notice will not participate until Shareholder approval is obtained under Listing Rule 10.14.

15.5 No additional approval under Listing Rule 7.1

As noted above, Listing Rule 7.1 provides that a listed company must not, subject to certain exceptions, issue during any 12 month period any equity securities, including securities with rights of conversion to equity, if the number of those securities exceeds 15% of the total number of ordinary securities on issue at the commencement of that 12 month period.

These restrictions do not apply in certain circumstances, including in relation to an issue of equity securities approved for the purposes of Listing Rule 10.14.

Consequently if Shareholders approve Resolution 14 separate approval will not be required under Listing Rule 7.1 for the issue of the Deferred Share Awards (or any Shares on conversion of those Deferred Share Awards) and the issue of the Deferred Share Awards will not count towards the Company's capacity to issue equity securities under Listing Rule 7.1

15.6 Consequence of Resolution 14 not being passed

If Shareholders do not approve Resolution 14 then Mr Moore may be paid the value of the Deferred Share Awards in cash or, subject to the Company's cash position, have his fees revised in consultation with the Company.

16 RESOLUTION 15 – APPROVAL OF THE ISSUE OF SHARES TO MR MOORE UNDER THE PLACEMENT

16.1 General

Resolution 15 is an ordinary resolution which seeks Shareholder approval for the purposes of Listing Rule 10.11 and for all other purposes, for the issue of 2,232,143 Shares to a proposed Director of the Company, Mr Moore, under the Placement, on the terms set out below.

16.2 Background

Mr Moore proposes to subscribe for, and the Company proposes to issue to Mr Moore, Shares on the same terms as investors under the Placement, including the subscription price of 11.2 cents (\$0.112) per Share. The 2,232,143 Shares to be issued to Mr Moore will form part of the 258,928,571 Shares to be issued under the Placement.

The terms of the Shares issued under the Placement (and therefore also for Resolution 15) are described in relation to Resolution 9 above (see Section 11). The purpose of the issue of Shares to Mr Moore, including the intended use of funds raised, is also as described in relation to Resolution 9 (see Sections 9.6 and 11.3(f)).

Listing Rule 10.11 requires the Company to obtain shareholder approval for the issue of Shares to related parties of the Company (such as a proposed Director). Resolution 15 seeks Shareholder approval under Listing Rule 10.11 and for all other purposes, for the issue of 2,232,143 Shares to Mr Moore.

Mr Moore's subscription for the Shares is conditional upon the Placement proceeding and all other Transaction Resolutions being passed.

If Shareholders approve Resolution 15, the Shares are expected to be issued at the same time as the Placement Shares which is expected to be within three Business Days after the Meeting (and in any case, within 1 month after the date of the Meeting).

16.3 No additional approval under Listing Rules 7.1

As noted above, Listing Rule 7.1 provides that a listed company must not, subject to certain exceptions, issue during any 12 month period any equity securities, including securities with rights of conversion to equity, if the number of those securities exceeds 15% of the total number of ordinary securities on issue at the commencement of that 12 month period.

These restrictions do not apply in certain circumstances, including in relation to an issue of equity securities approved for the purposes of Listing Rule 10.11.

16.4 Consequences of Resolution 15

If approval is given, the issue of Shares to Mr Moore will not count towards the Company's capacity to issue equity securities under Listing Rule 7.1. If approval is not provided in relation to Resolution 15, then Mr Moore will not subscribe for, and will not be issued, the Shares.

GLOSSARY

In this Notice of Meeting and Explanatory Notes, the following terms have the following meaning unless the context or subject matter otherwise requires:

10% Placement Capacity	has the meaning given in Section 2.3 of the Explanatory Notes.
10% Placement Period	has the meaning given in Section 8.3.1 of the Explanatory Notes.
Acquisition	means the proposed acquisition by the Company of 100% of the shares in the Target Companies pursuant to the Share Sale Deed as explained in Section 9.1 of the Explanatory Notes.
Amended Licence Agreement	means the amended licence agreement between TRUK, TRUL, HWL and the Company which amends the Licence Agreement.
Associate	has the meaning given in the ASX Listing Rules or in the Corporations Act, as the context requires.
ASX	means ASX Limited (ABN 98 008 624 691) or the securities market it operates, as the context requires.
ASX Listing Rules or Listing Rules	means the listing rules of the ASX, as amended from time to time.
Award	means an award granted under the Employee Incentive Plan (which may include SARs, Options, Deferred Share Awards and performance rights).
Board	means the board of Directors of the Company.
Chair	means the chair of the Meeting.
Chapter 2E	means Chapter 2E of the Corporations Act.
closely related party	has the meaning given to it in section 9 of the Corporations Act.
Company	means Funtastic Limited (ACN 063 886 199).
Completion	means completion of the Proposed Transactions.
Consideration Shares	means the 291,205,818 Shares to be issued to the Sellers under the Share Sale Deed.
control	has the meaning given in section 50AA the Corporations Act.
Conversion and Repayment Agreement	has the meaning given in Section 9.1(c) of the Explanatory Notes.
Conversion Shares	means the Shares to be issued to Jaszac under the Conversion and Repayment Agreement.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Deferred Share Award	means a right to be issued Shares on a future date.
Directors	means directors of the Company.
Employee Incentive Plan or Plan	means the Funtastic Equity Incentive Plan, a summary of the material terms of which is set out at Annexure B.
equity securities	has the meaning given to that term in the Listing Rules.
Exception 13	means exception 13 of Listing Rule 7.2.

Explanatory Notes	means the explanatory notes accompanying the Notice.
Financial Benefit	has the meaning given in Chapter 2E of the Corporations Act.
Grant Date	means the date an Option or a SAR is issued or granted, as specified in the Explanatory Notes.
Grant Value	means the value of a grant of SARs, Options or Deferred Share Awards, as specified in the Explanatory Notes.
HWL	means Hobby Warehouse Pty Ltd (ACN 148 094 517).
HWT Trustee	means Hobby Warehouse Holdings Pty Ltd (as trustee for the Hobby Warehouse Trust).
Independent Expert	means RSM Corporate Australia Pty Ltd ABN 82 050 508 024.
Independent Expert's Report	means the report of the Independent Expert commissioned by the Board and accompanying the Notice at Annexure A.
Investor Presentation	means the investor presentation of the Company dated 23 October 2020.
Jaszac	means Jaszac Investments Pty Ltd (ACN 128 619 483).
Key Management Personnel	has the same meaning as in the Accounting Standards.
Licence Agreement	means the licence agreement between TRUL, TRUK and HWL dated 31 May 2019.
Loan	means the loan advanced by Jaszac to the Company under the Loan Agreement.
Loan Agreement	means the Secured Loan Agreement dated 14 March 2019, as amended and restated on 14 January 2020 between the Company and Jaszac.
Market Price	has the meaning given in Section 7.4 of the Explanatory Notes.
Meeting	means the annual general meeting of the Company to be held at the time and place specified in this Notice of Meeting.
MFT Trustee	means Mittoni Holdings Pty Ltd (as trustee for the Mittoni Family Trust).
MPL	means Mittoni Pty Ltd (ACN 114 705 038).
Non-Associated Shareholders	means those Shareholders who are not Associates of the Sellers or Jaszac or otherwise excluded from voting on any of the Transaction Resolutions.
Non-Executive Directors	means a non-executive director of the Company.
Notice of General Meeting or Notice	means this notice calling the annual general meeting of Shareholders, of which the Explanatory Notes forms a part.
Option	means an option to acquire a Share.
Placement	means the placement of Shares to certain sophisticated and professional investors to raise up to \$29 million.
Placement Shares	means the 258,928,571 Shares to be issued under the Placement (including the 2,232,143 Shares to be issued to Mr Moore if Resolution 15 is passed and a maximum 26,785,714 Shares issued to Jaszac).

Plan or Employee Incentive Plan	means the Funtastic Equity Incentive Plan, a summary of the material terms of which is set out at Annexure B.
Proposed Transactions	has the meaning given in Section 9.1 of the Explanatory Notes.
Proxy Form	means the proxy form accompanying the Notice (and includes an online proxy form).
Related Party	has the meaning given in the Listing Rules or Chapter 2E of the Corporations Act (as the context requires).
Relevant Interest	has the meaning given in section 608(1) of the Corporations Act.
Relevant Shares	has the meaning given in Section 9.2(b) of the Explanatory Notes
Remuneration Report	has the meaning given in Section 4 of the Explanatory Notes.
Resolutions	means the resolutions to be considered by Shareholders at the Meeting, as set out in the Notice.
SAR or Share Appreciation Right	means a right to receive payment upon vesting in the form of Shares or cash, equal to the difference between the Fair Market Value of Shares on the Vesting Date and the Fair Market Value of such Shares on the Grant Date.
Section	means a section of the Explanatory Notes.
Sellers	means Mr Louis John Mittoni, Ms Gina Georgousis, MFT Trustee and HWT Trustee.
Share	means a fully paid ordinary share in the capital of the Company.
Share Sale Deed	has the meaning given in Section 9.1(a) of the Explanatory Notes.
Shareholder	means a holder of one or more Shares in the Company.
Substantial Asset	has the meaning given in Section 2.5 of the Explanatory Notes.
Substantial (10%+) Holder	has the meaning given in Section 2.5 of the Explanatory Notes.
Target Companies	means HWL, MPL and TRUL.
Transaction Resolutions	means Resolutions 8 to 13.
TRUK	means TRU Kids, Inc.
TRUK Shares	means the 1,223,092 Shares to be issued to TRUK.
TRUL	means Toys R Us Licensee Pty Ltd (ACN 632 418 494).
Underwriter	means Canaccord Genuity (Australia) Limited.
Underwriting Agreement	means the underwriting agreement between the Underwriter and the Company dated 23 October 2020.
Vesting Date	means the date on which a SAR, an Option or a Deferred Share Award vests, as specified in the Explanatory Notes.
Voting Power	has the meaning given in section 610(1) of the Corporations Act.

Annexure A



FUNTAISTIC LIMITED

Financial Services Guide and Independent Expert's Report

13 October 2020

We have concluded that for the purposes of section 611 item 7 of the Corporations Act and Listing Rule 10.1, the Proposed Transactions are not fair but reasonable to Non-Associated Shareholders of Funtastic Limited.

FINANCIAL SERVICES GUIDE

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 ("RSM Corporate Australia Pty Ltd" or "we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ("FSG"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the financial services that we will be providing you under our Australian Financial Services Licence, Licence No 255847;
- remuneration that we and/or our staff and any associates receive in connection with the financial services that we will be providing to you;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

Financial services we will provide

For the purposes of our report and this FSG, the financial service we will be providing to you is the provision of general financial product advice in relation to securities.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge various fees for providing different financial services. However, in respect of the financial service being provided to you by us, fees will be agreed, and paid by, the person who engages us to provide the report and such fees will be agreed on either a fixed fee or time cost basis. You will not pay to us any fees for our services; the Company will pay our fees. These fees are disclosed in the Report.

Except for the fees referred to above, neither RSM Corporate Australia Pty Ltd, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia, a large national firm of chartered accountants and business advisers. Our directors are partners of RSM Australia Partners.

From time to time, RSM Corporate Australia Pty Ltd, RSM Australia Partners, RSM Australia and / or RSM Australia related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints should be directed to The Complaints Officer, RSM Corporate Australia Pty Ltd, P O Box R1253, Perth, WA, 6844.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Australian Financial Complaints Authority ("AFCA"). AFCA is an independent dispute resolution scheme that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about AFCA are available at the AFCA website www.afca.org.au. You may contact AFCA directly by email, telephone or in writing at the address set out below.

Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001
Toll Free: 1800 931 678
Email: info@afca.org.au

Time limits may apply to make a complaint to the AFCA, so you should act promptly or consult the AFCA website to determine if or when the time limit relevant to your circumstance expires.

Contact details

You may contact us using the details set out at the top of our letterhead on page 5 of this report.

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13 October 2020

The Directors
Funtastic Limited
Suite 2.01, 315 Ferntree Gully Road
Mount Waverley VIC 3149

Dear Directors

INDEPENDENT EXPERT'S REPORT

1. Introduction

- 1.1 This Independent Expert's Report (the "Report" or "IER") has been prepared to accompany the Notice of Annual General Meeting and Explanatory Notes ("Notice") to be provided to shareholders for an Annual General Meeting of Funtastic Limited ("Funtastic" or "the Company") to be held on or around 18 November 2020, at which shareholder approval will be sought for a number of resolutions, including the issue of shares and options to acquire a 100% equity interest in Mittoni Pty Ltd, Hobby Warehouse Pty Ltd and Toys R Us Licensee Pty Ltd, (collectively, "HWG" or "Hobby Warehouse Group"), as set out below:

Resolution 8: Approval of issue of Shares to the Sellers under the Share Sale Deed

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

"That, subject to all other Transaction Resolutions being passed, for the purposes of Chapter 2E and item 7 of section 611 of the Corporations Act, and for all other purposes, approval is given for the issue of 291,205,818 Shares to the Sellers of Hobby Warehouse Pty Ltd, Mittoni Pty Ltd and Toys R Us Licensee Pty Ltd, on the terms set out in the Explanatory Notes, which may result in the Sellers' (being Mr Louis Mittoni and his Associates) Voting Power in the Company increasing from 0% to up to 34.43%."

Resolution 9: Approval of issue of Shares under the Placement

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

"That, subject to all other Transaction Resolutions being passed, for the purpose of Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 258,928,571 Shares at an issue price of 11.2 cents per Share to raise \$29 million under a placement to professional and sophisticated investors ("Placement") on the terms set out in the Explanatory Notes."

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RSM Corporate Australia Pty Ltd is beneficially owned by the Directors of RSM Australia Pty Ltd. RSM Australia Pty Ltd is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 Australian Financial Services Licence No. 255847

Resolution 10: Approval of issue of Shares under the Loan Conversion and Repayment Agreement

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

“That, subject to all other Transaction Resolutions being passed, for the purpose of Listing Rules 7.1 and 10.1 and for all other purposes, approval is given for the Company to issue up to 53,571,429 Shares at an issue price of 11.2 cents per share to Jaszac Investments Pty Ltd (“Jaszac”), as a result of the conversion of part of the Loan into Shares under the Loan Conversion and Repayment Agreement, on the terms set out in the Explanatory Notes.”

Resolution 11: Approval of issue of Shares to TRU Kids, Inc.

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

“That, subject to all other Transaction Resolutions being passed, for the purposes of Chapter 2E of the Corporations Act and Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue 1,223,092 Shares at an issue price of 11.2 cents per share to TRU Kids, Inc. on the terms set out in the Explanatory Notes.”

Resolution 12: Approval of the grant of Options to Mr Mittoni

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

“That, subject to all other Transaction Resolutions being passed, for the purposes of item 7 of section 611 of the Corporations Act and Listing Rule 10.14 and for all other purposes, approval is given for the grant of Options (and any subsequent issue of Shares upon exercise of those Options) to Mr Mittoni (or his nominee), under the Company’s Employee Incentive Plan on the terms set out in the Explanatory Notes.”

Resolution 13: Approval of the grant of Options to Mr Moore

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

“That, subject to all other Transaction Resolutions being passed, for the purposes of Listing Rule 10.14 and for all other purposes, approval is given for the grant of Options (and any subsequent issue of Shares upon exercise of those Options) to Mr Moore (or his nominee), under the Company’s Employee Incentive Plan on the terms set out in the Explanatory Notes”.

- 1.2 The Directors of the Company have requested that RSM Corporate Australia Pty Ltd (“RSM”), being independent and qualified for the purpose, express an opinion as to whether Resolutions 8, 10 and 12 are fair and reasonable to Funtastic shareholders not excluded from voting on Resolutions 8, 9, 10, 11, 12 and 13 (the “Shareholders” or “Non-Associated Shareholders”).
- 1.3 Resolutions 8, 9, 10, 11, 12, and 13 (collectively, the “Transaction Resolutions”) as defined in the Notice, are interdependent. If each of the Transaction Resolutions are not passed, the Proposed Transactions will not proceed. We have assessed whether Resolutions 8, 10, 11, 12, and 13 are fair and reasonable to Non-Associated Shareholders through evaluating whether the Proposed Transactions are, as a whole, fair and reasonable to Non-Associated Shareholders.
- 1.4 We have not considered the approval of Resolution 9 (the proposed Placement to raise \$29m before costs) in our assessment of fairness, but have considered the approval of Resolution 9 in our assessment of the reasonableness of the Proposed Transactions.
- 1.5 The ultimate decision whether to approve the Proposed Transactions should be based on each Shareholder’s assessment of their circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt as to the action they should take regarding the Proposed Transactions, or the matters dealt with in this Report, Shareholders should seek independent professional advice.

2. Summary and Conclusion

Opinion

- 2.1 In our opinion, for the reasons set out in sections 10 and 0 of this Report, and for the purposes of section 611 item 7 of the Corporations Act and Listing Rule 10.1, the Proposed Transactions are **not fair but reasonable** to Non-Associated Shareholders.

Approach

- 2.2 In assessing whether the Proposed Transactions are fair and reasonable to Non-Associated Shareholders, we have considered Australian Securities and Investment Commission (“ASIC”) Regulatory Guide 111 – Content of expert reports (“RG 111”), which provides specific guidance as to how an expert is to appraise transactions.
- 2.3 Where an issue of shares by a company otherwise prohibited under section 606 of the Corporations Act 2001 (“Corporations Act” or “the Act”) is approved under section 611, item 7, and the effect on the company shareholding is comparable to a takeover bid, such as the Proposed Transactions, RG 111 states that the transaction should be analysed as if it was a takeover bid.
- 2.4 Therefore, we have considered whether or not the Proposed Transactions are “fair” to Non-Associated Shareholders by assessing and comparing:
- the Fair Value of a Share in Funtastic on a controlling basis prior to the Proposed Transactions; with
 - the Fair Value of a Share in Funtastic on a non-controlling basis immediately post completion of the Proposed Transactions.
- 2.5 We have also considered whether the Proposed Transactions are “reasonable” to Non-Associated Shareholders by undertaking an analysis of the other factors relating to the Proposed Transactions which are likely to be relevant to the Non-Associated Shareholders in their decision of whether or not to approve the Proposed Transactions.
- 2.6 Further information on the approach we have employed in assessing whether the Proposed Transactions is “fair” and “reasonable” is set out Section 4 of this Report.

Fairness

- 2.7 In assessing the fairness of the Proposed Transactions, we have valued a share in Funtastic prior to and immediately after the Proposed Transactions as set out in the table below.

	Ref	Low	High	Preferred
Fair Value per share prior to the Proposed Transactions (controlling basis)	Table 18	\$0.029	\$0.032	\$0.030
Fair Value per share immediately after the Proposed Transactions (non-controlling basis)	Table 25	\$0.021	\$0.025	\$0.023

Source: RSM analysis

Table 1: Valuation Summary

2.8 The above is represented graphically as set out in the chart below.



Chart 1: Valuation summary graphical representation

2.9 In our opinion, as the Fair Value of a Funtastic share (on a non-controlling basis) immediately after the Proposed Transactions, is less than the Fair Value of a Funtastic share (on a controlling basis) prior to the Proposed Transactions, we consider the Proposed Transactions are **not fair** to the Non-Associated Shareholders of Funtastic.

Reasonableness

2.10 RG 111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the offer closes. As such, we have also considered the following factors in relation to the reasonableness aspects of the Proposed Transactions:

- the future prospects of the Company if the Proposed Transactions do not proceed;
- the trading of Funtastic's shares following the announcement of a potential transaction made on 25 August 2020;
- other commercial advantages and disadvantages to Non-Associated Shareholders as a consequence of the Proposed Transactions proceeding; and
- alternative proposals to the Proposed Transactions.

Future prospects of Funtastic if the Proposed Transactions do not proceed

2.11 Funtastic has disclosed significant declines in revenue over recent years, from circa \$56m for the year ended 31 July 2017 ("FY17") to circa \$25m for the year ended 31 July 2020 ("FY20"). The last four financial years have resulted in significant operating losses in each year with positive reported EBITDA results in the 2018 and 2019 financial years resulting from one-off gains, being debt forgiveness from the Company's then lender, the National Australia Bank (NAB).

2.12 The following alternatives to reduce operating costs have been considered but have been determined to not be feasible in the long term:

- reduction of overheads – the Company has continually reduced overheads as revenues declined but has been unable to reduce overheads sufficiently at the date of this Report to enable the business to return to profit;
- corporate restructure – during FY20, the Company has restructured and exited non-profitable product lines. The Directors consider that any further restructuring would result in the Company being unable to operate effectively. The Company has and continues to rely on continuing funding from Jaszac Investments Pty Ltd ("Jaszac"), to fund operations;

- alternate funding – following the debt write offs agreed by the NAB, Funtastic has been unable to secure further finance facilities other than a debt finance facility with Scottish Pacific Business Finance (“Scottish Pacific”), secured by the Company’s debtors. The Scottish Pacific funding has not been sufficient to fund the cashflow needs of the business and the Company has been supported by a \$12m loan agreement with Jaszac with an interest rate of 12% per annum. This loan plus accrued interest is repayable on 31 December 2023 unless terms are extended or the existing loan is partially converted to equity, with the remainder repaid from the proceeds of the Placement in accordance with Resolution 10; and
- capital markets funding on a standalone basis – Funtastic undertook a share purchase plan in December 2019 to raise further funds from shareholders, but this was not well supported and only raised approximately \$130k.

2.13 If the Proposed Transactions are not approved, the Directors consider that the Company’s current funding will be insufficient to support the business beyond FY21. As such the Directors consider the future prospects for Funtastic would be limited to the following options:

- discuss the willingness and ability of the Company’s largest shareholder, Jaszac to provide increased funding beyond the current agreement. However, the ability to secure this funding is not considered to be likely;
- Funtastic could pursue alternative transactions to either acquire a new business or be acquired by another business. At the date of this Report, the Directors consider that no such appropriate alternative transaction has been identified and future likelihood of finding an appropriate transaction is considered low; and
- if Jaszac did not continue to support the existing Secured Loan Agreement or agree to make further funding available, the Directors consider that there would be no alternative than to enter into voluntary administration.

2.14 The audited financial statements for FY20 included an emphasis of matter in the independent auditor’s report issued by Grant Thornton that stated that a material uncertainty existed that may cast significant doubt on the Company’s ability to continue as a going concern. Whilst the auditor’s opinion was not modified in respect of this matter, the auditor drew attention to the disclosure in note 1 of the financial statements that Funtastic’s ability to continue as a going concern was dependent upon factors such as sustaining improved financial results, executing the strategic plan to restructure operations and continuing to receive support from creditors, customers, Scottish Pacific and Jaszac.

Advantages of approving the Proposed Transactions to Shareholders:

2.15 The advantages of the Proposed Transactions are:

- the acquisition of HWG is consistent with the Company’s current strategy of implementing a change in business model. Whilst Funtastic has operated for over 20 years as a distributor of family focused lifestyle products, opportunities for distribution are decreasing and realised margins are decreasing. This is due primarily to retailers increasingly moving towards a direct sourcing model and major producers of lifestyle products increasingly distributing their own products within Australia. For these reasons, Funtastic has been focused on growing its direct to consumer sales through online channels, consistent with HWG’s current operations. The Funtastic Board of Directors is also in the process of moving towards a strategy of the Company owning its own products or owning the IP of products rather than distributing similar products that compete with retailers also implementing a direct sourcing model;
- the Directors consider HWG’s operations to be well-positioned for growth due to the strategy of targeting consumers from “cradle to grave” via HWG’s exclusive 30-year license agreement to sell Toys “R” Us and Babies “R” Us brands in Australia and New Zealand, as well as Hobby Warehouse Pty Limited’s niche hobby products online business;

- the Directors consider that the Proposed Transactions represent an opportunity to expand the Company's online direct to consumer capabilities through the acquisition of two brands with significant brand equity and consumer awareness, and leverage Funtastic's core strengths in successfully sourcing, marketing and distributing branded lifestyle products to drive revenue and margin growth;
- there are expected to be significant synergies including reduced supply chain costs and reductions in combined overheads;
- the Proposed Transactions are contingent upon a Placement to support the Company's expansion plans in line with HWG's business plan to generate profits by successfully marketing and selling products under the Toys "R" Us and Babies "R" Us brands by implementing a comprehensive direct-to-consumer marketing and media strategy. HWG also hopes to implement a lower cost overhead model by investing in warehouse robotics and Artificial Intelligence to promote cost efficiencies. If the Placement is successful and the expansion plan is successfully implemented, Shareholders would benefit from the upside of profitable operations;
- if successful, the Placement (capital raising) will provide working capital to support the growth strategy and reduce the current debt within Funtastic, while providing greater certainty over the future of the Company to staff, suppliers, customers and retail partners; and
- there may be possible improvement in the liquidity of Funtastic shares if the Proposed Transactions create increased interest in the Company and hence a more efficient market for shareholders to dispose of their shareholdings.

Disadvantages of approving the Proposed Transactions to Shareholders:

2.16 The disadvantages of the Proposed Transactions are:

- the Proposed Transactions are not fair;
- the dilution of Non-Associated Shareholders' interests from 80.39% to 22.85% assuming a \$29m capital raising under the Placement;
- in the event the share price exceeds the Option exercise price specified at paragraphs 3.7 and 3.8, Non-Associated Shareholders' interests would be further diluted if the Options issued under Resolutions 12 and 13 are exercised;
- the dilution of Non-Associated Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals;
- the costs of the Proposed Transactions are expected to be approximately \$2.0m, a significant proportion of the estimated Placement of \$29.0m;
- the completion of the Proposed Transactions is contingent upon the Company's ability to complete the Placement. The Company will incur costs irrespective of whether or not a Placement under Resolution 9 is successfully completed;
- HWG is reliant on the continued involvement of Mr Mittoni in the business;
- sales of HWG are reliant on the maintenance of the 30-year Trademark License Agreement ("TRU License Agreement") to sell products using the Toys "R" Us and Babies "R" Us brands in Australia and New Zealand; and

- in connection with the Proposed Transactions, a number of changes to the TRU License Agreement have been agreed with TRU Kids, Inc. (“TRUK”), which will be effective from the completion of the Proposed Transactions. The agreed changes to the TRU License Agreement (“Amended License Agreement”) place additional obligations on the licensee (being Toys R Us Licensee Pty Ltd), and also include the right of termination by either party by giving 18 months’ notice prior to the expiration of the initial term or the first renewal term (as defined in the Amended License Agreement).

Alternative proposals

- 2.17 We are not aware of any alternative proposals which may provide greater benefit to Non-Associated Shareholders as of the date of this Report.

Response of the market to a Potential Transaction

- 2.18 Whilst the Proposed Transactions have not been announced to the market as at the date of this Report, on 25 August 2020, Funtastic announced that the Company was in early stage discussions regarding the potential acquisition of certain businesses that aligned with Funtastic’s strategic direction (“Potential Transaction”). The Company also announced that if the Potential Transaction was to proceed, the Company may undertake a capital raising to support the Potential Transaction.
- 2.19 Funtastic’s volume weighted average share price (“VWAP”) of \$0.053 post the announcement of the Potential Transaction was greater than the 5, 10, 30 and 60-day VWAP ranging from \$0.031 to \$0.038.
- 2.20 Notwithstanding the relatively low liquidity of the Company’s shares, we consider that the market has reacted favourably to the announcement of a Potential Transaction.

Conclusion on Reasonableness

- 2.21 In our opinion, and in the absence of any other relevant information and/or a superior offer, for the purposes of section 611, item 7 of the Corporations Act and Listing Rule 10.1, we consider that the Proposed Transactions are **reasonable** for the Non-Associated Shareholders.

3. Summary of Proposed Transactions

Overview

- 3.1 HWG comprises the following entities:
- Mittoni Pty Ltd (“MPL”);
 - Hobby Warehouse Pty Ltd (“HWL” or “HWPL”); and
 - Toys R Us Licensee Pty Ltd (“TRUL”).
- 3.2 Under Resolution 8, the Company will issue a total of 291,205,818 new Shares (“Consideration Shares”), to the Sellers of MPL, HWPL and TRUL (HWG) to acquire a 100% equity interest in each of the HWG companies.
- 3.3 Under Resolution 9, the Company expects to issue a total of 258,928,571 new Shares to professional and sophisticated investors at an issue price of 11.2 cents per share to raise \$29m (before costs) as part of the Proposed Transactions. The funds raised under the proposed Placement are intended to provide working capital to support Funtastic’s growth strategy and eliminate the current debt held by the Company. The Placement is a condition precedent of the Proposed Transactions. As set out in the Notice, Jaszac has indicated that it may participate in the Placement up to a maximum amount of \$3m (26,785,714 Shares).

- 3.4 Under Resolution 10, the Company will issue a total of 53,571,429 new Shares at an issue price of 11.2 cents per share to Jaszac to convert \$6m in borrowings due to Jaszac to equity in Funtastic. Funds raised under the Placement are expected to be used to repay the remaining loan amounts due to Jaszac as at the date of this Report of circa \$2.7m.
- 3.5 In May 2019, HWPL and TRUL entered into a Trademark License Agreement with TRUK, comprising an exclusive 30-year license agreement providing the exclusive rights to market and sell products under the Toys “R” Us and Babies “R” Us brands (TRU License Agreement). In connection with the Proposed Transactions, a number of changes to the TRU License Agreement have been agreed with TRUK, which will be effective from the completion of the Proposed Transactions. The agreed changes to the TRU License Agreement (as set out in further detail in the Notice) (Amended License Agreement), include the following:
- the initial term being extended to 31 May 2041, with an extension of two additional 10-year renewal periods (subject to certain conditions as detailed in the Notice);
 - TRUK having observer, consultation, and approval rights relating to the Board and Management of Funtastic, including consultation and approval rights over any future chief executive officer, managing director and chairperson; the right to appoint an observer to the Board of Funtastic, with the observer to be provided with all Board materials; and the Company having an obligation to use its best efforts to ensure that the number of Board members does not exceed four directors;
 - if the Company does not comply with the above obligations, the license fees will increase for the period of time being 90 days from the date TRUK issues a notice in writing to the Company that it is in breach of its obligations, to the date Funtastic remedies the breach;
 - TRUK varying its license fee structure;
 - a balanced termination regime being adopted, including the right of termination by either party by giving 18 months’ notice prior to the expiration of the initial term or the first renewal term;
 - TRUK may terminate the Amended License Agreement by prior written notice to TRUL for, amongst other things:
 - TRUL, HWPL or the Company breaching the Amended License Agreement and if remediable, failing to remedy after notice;
 - late payment of any amounts due which are not remedied after TRUK gives notice;
 - change in control of TRUL or the Company (other than in respect of the Proposed Transactions or subsequently, with TRUK’s consent);
 - failure of TRUL to pay its vendors or suppliers by the due date for payment and failure to remedy after notice;
 - TRUL, HWPL and the Company cease to be affiliates of each other; or
 - TRUL uses the Authorised Marks (as defined in the Amended License Agreement) in a manner inconsistent with the terms of the Amended License Agreement and fails to remedy after notice.
 - TRUL may terminate for a material breach by TRUK if the breach is not remedied within 45 days of notice; and

- Funtastic and its subsidiaries being subject to significant trade restraints as follows:
 - the Company and its subsidiaries must not, directly or indirectly, for the duration of the term of the Amended License Agreement and for one year after, compete with the Toys R Us or Babies R Us businesses anywhere in the world (as defined in the Amended License Agreement); and
 - notwithstanding the above, if the Amended License Agreement is terminated by TRUK, the restraints above apply to the Company and its subsidiaries until the earlier of the end of the restraint period, being 60 months after the date of the termination (or, if unenforceable, a shorter restraint period), and the last day of the term (being the initial term or any renewal term, as applicable).

3.6 Under Resolution 11, the Company will issue a total of 1,223,092 new Shares to TRUK in consideration for TRUK entering into the Amended License Agreement (“TRUK Shares”). The TRUK Shares will be issued at the deemed issue price equal to the issue price under the Placement, being 11.2 cents (\$0.112) each, representing the issue of approximately US\$100,000 worth of Shares, at an agreed foreign exchange rate of A\$1.00 to US\$0.73.

3.7 Under Resolution 12, based on current estimates, the Company will issue 25,679,327 unlisted options (“Options”) to Mr Mittoni in 3 equal tranches, with tranche 1 expected to be issued on 20 November 2020, and tranches 2 and 3 to be issued on 1 November 2021 and 1 November 2022, respectively. The terms of the options to be issued are as follows:

- tranche 1 options are exercisable at \$0.138 per option and expire 1 November 2023;
- tranche 2 options are exercisable at \$0.166 per option and expire 1 November 2024; and
- tranche options are exercisable at \$0.199 per option and expire 1 November 2025.

3.8 Under Resolution 13, based on current estimates, the Company will issue 5,135,865 Options to Mr Kevin Moore in 3 equal tranches, with tranche 1 expected to be issued on 20 November 2020, and tranches 2 and 3 to be issued on 1 November 2021 and 1 November 2022, respectively. The terms of the options to be issued are as follows:

- tranche 1 options are exercisable at \$0.138 per option and expire 1 November 2023;
- tranche 2 options are exercisable at \$0.166 per option and expire 1 November 2024; and
- tranche options are exercisable at \$0.199 per option and expire 1 November 2025.

3.9 Subject to the completion of the Proposed Transactions, Mr Mittoni will be appointed as Managing Director and Chief Executive Officer of the Company, and Mr Moore will be appointed as a Non-Executive Director and Chairman of the Company. The proposed issue of Options to Mr Mittoni and Mr Moore under Resolutions 12 and 13, respectively, is considered by the Company to be a long-term incentive under the Company’s Employee Incentive Plan.

3.10 We have assessed the potential dilutionary impact of the above Options in our assessment of the value of a Funtastic share immediately post the Proposed Transactions as set out in Section 9 of this Report. Further details on the assumptions and inputs we have used to value the potential dilutionary impact of the Options are set out in Appendix E.

Background information regarding Mr Mittoni and Mr Moore

- 3.11 Mr Mittoni is the founder of the Mittoni and Hobby Warehouse businesses. He has over 20 years' experience in operating and managing Australian retail businesses in both distributor and online channels.
- 3.12 Mr Mittoni is a qualified physicist and engineer, and has extensive experience of process optimisation, programming and artificial intelligence.
- 3.13 Mr Moore has multinational board and governance experience, specialising in digital marketing with a focus on \$10 - \$100 million businesses. Mr Moore is a fellow of the Australian Institute of Company Directors and a member of the Chartered Institute of Marketing. Mr Moore holds a Diploma in International and Export Marketing from Henley, the Management College at The University of Reading.
- 3.14 Mr Moore's current non-executive responsibilities include the following roles:
- Chairman of the physical and digital events company Now Comms Asia Group, based in Singapore; and
 - Independent Non-Executive Director of InvestSMART Group Limited (ASX:INV).
- 3.15 Whilst Mr Moore is not an Associate of the Sellers (as defined under the Listing Rules), he provides independent professional advisory services to Mr Mittoni from time to time.

Impact of Proposed Transactions on Funtastic's Capital Structure

- 3.16 The table below summarises the capital structure of the Company prior to, and immediately following the Proposed Transactions.

	Number of shares	%	Number of Options	%
Funtastic capital structure prior to the Proposed Transactions				
Number of ordinary shares held by Jaszac	47,154,705	19.61%	-	0.00%
Number of ordinary shares held by Non-Associated Shareholders	193,249,370	80.39%	-	0.00%
Total	240,404,075	100.00%	-	0.00%
Funtastic capital structure immediately after the Proposed Transactions (but before Placement)				
Number of ordinary shares and options held by the Sellers	291,205,818	49.62%	25,679,327	83.33%
Number of ordinary shares held by Jaszac	100,726,134	17.16%	-	0.00%
Number of options held by Mr Moore	-	0.00%	5,135,865	16.67%
Number of shares held by TRUK	1,223,092	0.21%	-	0.00%
Number of shares held by Mr Abbey	454,545	0.08%	-	0.00%
Number of ordinary shares held by Non-Associated Shareholders	193,249,370	32.93%	-	0.00%
Total	586,858,959	100.00%	30,815,192	100.00%

Source: Company share registry and RSM analysis

Table 2: Funtastic capital structure prior to and immediately after the Proposed Transactions

- 3.17 The table below summarises the capital structure of the Company immediately after the approval of the proposed Placement (assuming that Jaszac participates in the Placement of up to a maximum amount of \$3m.

	Number of shares	%	Number of Options	%
Effect of the Placement				
Number of ordinary shares and options held by the Sellers	291,205,818	34.43%	25,679,327	83.33%
Number of ordinary shares held by Jaszac	127,511,848	15.08%	-	0.00%
Number of options held by Mr Moore	-	0.00%	5,135,865	16.67%
Number of shares held by TRUK	1,223,092	0.14%		
Number of shares held by Mr Abbey	454,545	0.05%		
Number of ordinary shares held by new shareholders as a result of the Placement	232,142,857	27.45%	-	0.00%
Number of ordinary shares held by Non-Associated Shareholders	193,249,370	22.85%	-	0.00%
Total	845,787,530	100.00%	30,815,192	100.00%

Source: RSM analysis

Table 3: Funtastic capital structure after the completion of the Placement

- 3.18 Approval of Resolution 9 will permit the Company to raise an amount of up to \$29m (before capital raising costs) through the issue of 258,928,572 ordinary shares (represented in the table above as 232,142,857 shares held by other shareholders plus 26,785,714 new shares that would be issued to Jaszac if Jaszac subscribed for a maximum of \$3m under the Placement).
- 3.19 Completion of the Proposed Transactions would result in the dilution of Non-Associated Shareholders' interests from 80.39% to 22.85%, and the Sellers acquiring a 34.43% interest in the Company.
- 3.20 Assuming that the Sellers and Mr Moore exercise their Options, Non-Associated Shareholders would be further diluted to 22.12% (assuming no other changes to the capital structure). It should also be noted that the dilution to Non-Associated Shareholders as set out in Table 3 assumes that none of these Shareholders participates in the Placement.
- 3.21 The Notice is also seeking shareholder approval for Mr Moore to subscribe for \$250k in new Shares under the Placement under Resolution 15. However, as Resolution 15 is not a Transaction Resolution and has no impact on our assessment of the fairness and reasonableness of the Proposed Transactions, we have not considered the issue of shares to Mr Moore under the Placement in this Report.
- 3.22 It should be noted that the above capital structure of the Company immediately after the approval of the Proposed Transactions (including the effect of the Placement), includes 454,545 Shares to be issued to Mr Howard Abbey. Mr Abbey is the Chief Financial Officer and is being issued Shares related to remuneration for undertaking the role of Acting Chief Executive Officer in the period following the departure of Mr Steven Leighton and the appointment of Mr David Jackson in the role in 2019. The issue of Shares to Mr Abbey is not related to the Proposed Transactions or subject to shareholder approval.

4. Scope of the Report

Corporations Act and ASX Listing Rules

- 4.1 Section 606 of the Act prohibits a person from acquiring a relevant interest in the issued voting shares of a public company if the acquisition results in that person's voting interest in the company increasing from a starting point that is below 20% to an interest that is above 20%. Completion of the Proposed Transactions will result in the Sellers acquiring 34.43% in the Company, and up to 36.15% if all Options (based on current estimates) are exercised.
- 4.2 Under item 7 of section 611 of the Act, the prohibition contained in section 606 does not apply if the acquisition has been approved by the Non-Associated Shareholders of the Company.
- 4.3 Accordingly, the Company is seeking approval from the Non-Associated Shareholders for Resolution 1 under item 7 of section 611 of the Act.
- 4.4 Section 611(7) of the Act states that shareholders must be given all information that is material to the decision on how to vote at the meeting. ASIC Regulatory Guide 111 ("RG 111") advises the requirement to commission an Independent Expert's Report in such circumstances and provides guidance on the content.
- 4.5 Listing Rule 10.1 states that, subject to certain exceptions, entities must not dispose of a substantial asset to certain persons without the approval of its shareholders. Those persons include related parties and a substantial (10%+) holder in the entity.
- 4.6 An asset is substantial if its value or the value of the consideration being paid or received by the entity for it is, or in the ASX's opinion is, 5% or more of the equity interests of the entity, as set out in the latest accounts given to the ASX under the Listing Rules.
- 4.7 Completion of the Proposed Transactions will result in the issue of 53,571,429 new Shares at an issue price of 11.2 cents per share to Jaszac to convert approximately \$6m in borrowings due to Jaszac to equity in Funtastic. Jaszac is a substantial holder in the Company, holding a 19.61% interest in Funtastic as at the date of this Report. Upon completion of the Proposed Transactions, Jaszac's interest in the Company will be diluted, holding 100,716,134 shares in the Company, representing an 11.91% interest in the Company immediately post the Proposed Transactions (or holding up to a 15.08% interest in the Company if Jaszac subscribes up to \$3m under the Placement).
- 4.8 Accordingly, approval for the issue of Shares under Resolution 10 is being sought under Listing Rule 10.1.

Basis of Evaluation

- 4.9 In determining whether the Proposed Transactions are "fair and reasonable", we have given regard to the views expressed by ASIC in RG 111.
- 4.10 RG 111 provides ASIC's views on how an expert can help security holders make informed decisions about transactions. Specifically, it gives guidance to experts on how to evaluate whether or not a proposed transaction is fair and reasonable.
- 4.11 RG 111 states that the expert report should focus on:
 - the issues facing the security holders for whom the report is being prepared; and
 - the substance of the transaction rather than the legal mechanism used to achieve it.
- 4.12 Where an issue of shares by a company otherwise prohibited under section 606 is approved under item 7 of section 611 and the effect on the company's shareholding is comparable to a takeover bid, RG 111 states that the transaction should be analysed as if it was a takeover bid.

- 4.13 RG 111 applies the "fair and reasonable" test as two distinct criteria in the circumstance of a takeover bid, stating:
- a takeover offer is considered "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer; and
 - a takeover offer is considered "reasonable" if it is fair or, where the offer is "not fair", it may still be "reasonable" if the expert believes that there are sufficient reasons for security holders to accept the offer.
- 4.14 Where an expert assesses whether a related party transaction is "fair and reasonable" (whether for the purposes of Chapter 2E of the Corporations Act or ASX Listing Rule 10.1), RG 111 also states that this should not be applied as a composite test – that is, there should be a separate assessment of whether the transaction is "fair" and "reasonable", as in a control transaction.
- 4.15 Consistent with the guidelines in RG 111, in determining whether the Proposed Transactions are "fair and reasonable" to the Non-Associated Shareholders, the analysis undertaken is as follows:
- a comparison of the Fair Value of an ordinary share in Funtastic prior to, and immediately following the Proposed Transactions, being the "consideration" for Non-Associated Shareholders in the assessment of fairness; and
 - a review of other significant factors which Non-Associated Shareholders might consider prior to approving the Proposed Transactions in the assessment of reasonableness.
- 4.16 In particular, we have considered the advantages and disadvantages of the Proposed Transactions in the event that the Proposed Transactions proceed or do not proceed including:
- the future prospects of the Company if the Proposed Transactions do not proceed; and
 - any other commercial advantages and disadvantages to Non-Associated Shareholders as a consequence of the Proposed Transactions proceeding.
- 4.17 Our assessment of the Proposed Transactions is based on economic, market and other conditions prevailing at the date of this Report.

5. Profile of Funtastic Limited

Background

- 5.1 Funtastic was founded in 1996 and has been listed on the ASX (ASX:FUN) since September 2000. The Company (together with its subsidiaries), is an Australian wholesaler and distributor of toys, sporting goods, confectionary, and apparel and lifestyle products.
- 5.2 In addition to distributing leading products throughout Australia for its key partners, Funtastic also owns a number of its own products and distributes these globally.
- 5.3 The Company's head office is in Melbourne.
- 5.4 Prior to 2015, the Company's operations were segmented into two categories:
 - Funtastic Australia; and
 - Funtastic Brands.
- 5.5 The Funtastic Australia segment distributed licensed toys, sporting equipment, nursery equipment and confectionery. The Funtastic Brands segment designed and sourced products. These divisions are now merged into one reporting segment.
- 5.6 Funtastic also previously operated a third segment, Madman Entertainment, which was involved in entertainment distribution and management, but divested it in July 2014.

Directors and management

- 5.7 At the date of this Report, the directors and key management of Funtastic comprise the following:
 - Mr Bernard Joseph Brookes (Chairman and Non-Executive Director)
 - Ms Nicki Elizabeth Anderson (Non-Executive Director)
 - Mr John Antonio Tripodi (Non-Executive Director)
 - Mr Howard Mallinson Abbey (Chief Financial Officer and Company Secretary)
 - Mr Luke Eddy (Global Sourcing Manager)
 - Mr Matthew Clements (General Manager – Sales and Marketing)
- 5.8 Upon completion of the Proposed Transactions, Mr Brookes will resign from the Board and the Company will appoint Mr Mittoni and Mr Moore as directors, with Mr Mittoni being appointed as Chief Executive Officer and Mr Moore appointed as Chairman.

Financial information

- 5.9 The information in the following section provides a summary of the consolidated financial performance and financial position of Funtastic for the years ended 31 July 2017 ("FY17"), 31 July 2018 ("FY18"), 31 July 2019 ("FY19"), and 31 July 2020 ("FY20"), extracted from the audited financial statements.

Financial performance

5.10 The following table sets out a summary of the consolidated financial performance of Funtastic for FY17, FY18, FY19 and FY20.

Funtastic Limited		FY17	FY18	FY19	FY20
Historical Financial Performance	Note	\$'000	\$'000	\$'000	\$'000
Revenue	5.11	55,707	41,748	29,959	24,897
Cost of sales	5.12	(38,797)	(26,717)	(25,054)	(21,067)
Gross profit		16,910	15,031	4,905	3,830
Other income		439	128	1	3
Warehouse and distribution expenses		(3,964)	(3,272)	(2,310)	(2,205)
Marketing and selling expenses		(6,345)	(1,150)	(599)	(1,027)
Administration expenses		(12,689)	(4,430)	(2,361)	(3,723)
Employee expenses		-	(7,869)	(5,940)	(4,611)
Loan forgiveness	5.14	-	35,003	15,710	-
Impairment of goodwill and intangible assets	5.18, 5.19	(17,144)	(1,951)	(702)	-
Total operating expenses		(40,142)	16,331	3,798	(11,566)
EBITDA	5.15, 5.16	(22,793)	31,490	8,704	(7,733)
Finance expenses		(3,559)	(1,917)	(703)	(1,152)
Depreciation and amortisation expenses		(1,645)	(1,571)	(399)	(320)
Profit before income tax		(27,997)	28,002	7,602	(9,205)
Income tax (expense)/benefit		(1,690)	165	(96)	-
Profit from continuing operations	5.15	(29,687)	28,167	7,506	(9,205)
Profit/(Loss) from discontinued operations	5.20 to 5.22	(3,779)	91	90	(108)
Profit/(Loss) for the year		(33,466)	28,258	7,596	(9,313)
Other comprehensive income (net of tax)					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Exchange differences on translating foreign operations		212	(122)	(980)	886
Gain on cash flow hedges taken to equity		131	88	-	-
Other comprehensive income/(loss) for the year		343	(34)	(980)	886
Total comprehensive income/(loss) attributable to the members of Funtastic		(33,123)	28,224	6,616	(8,427)

Source: Audited financial statements

Table 4: Funtastic Financial Performance

- 5.11 Since FY17, Funtastic's revenue consistently decreased, from \$55.7m in FY17 to \$30.0m in FY19. The Company's total revenue of \$24.6m for FY20, represented a further decline compared to FY19.
- 5.12 Cost of sales significantly increased as a percentage of revenue in FY19 to 84%, compared to 64% and 70% in FY18 and FY17, respectively. Cost of sales represented 88% of total revenue for FY20.
- 5.13 Gross profit margin has declined as a result of pricing pressure and retailers increasingly moving towards a direct sourcing model and major producers of lifestyle products increasingly distributing their own products within Australia. The Company is currently undertaking a strategic review and restructure of the business, with the aim of rationalising the toy distribution division and exiting the apparel divisions. The focus is intended to be targeted towards families with children including outdoor lifestyle (such as Razor-branded scooters), family safety and education (learning resources range), and fun lifestyle (including confectionary and the range of Chill Factor-branded slushie makers).

- 5.14 A loan forgiveness of \$35.0m was recognised for FY18 following a restructure of Funtastic's debt facility with the National Australia Bank (NAB) effective 30 August 2017. Further restructuring of the Company's debt facility with the NAB was undertaken in FY19, resulting in a reduction of debt by \$15.7m by way of a further debt forgiveness recognised in FY19. A new debtor facility was established with Scottish Pacific Business Finance (Scottish Pacific) in FY19. The Company also entered into a Secured Loan Agreement of \$6m with Jaszac during FY19 to provide funding for the purpose of general working capital to assist with the purchase of Toy Story 4 inventory. The Secured Loan Agreement with Jaszac accrues interest at 12% per annum and is payable on the final repayment date on 31 December 2023. Security comprises a general security deed between Funtastic and Jaszac entitling Jaszac to a secured interest over the Company.
- 5.15 In FY17, the Company disclosed losses from continuing operations of \$29.7m and losses at the EBITDA level of \$22.8m. In FY18 and FY19, the Company disclosed profits from continuing operations of \$28.2m and \$7.5m, respectively. The profits from continuing operations disclosed for FY18 and FY19 were due primarily to the loan forgiveness amounts recognised as set out above.
- 5.16 Funtastic disclosed losses at the EBITDA level of \$7.7m for FY20. Excluding income recognised in relation to the forgiveness of the Company's loans with NAB in FY18 and FY19, the Company disclosed losses at the EBITDA level of \$3.5m and \$7.0m for FY18 and FY19, respectively.
- 5.17 The Company recognised losses from continuing operations of \$9.2m for FY20.
- 5.18 Impairment of intangible assets of \$2.0m and \$702k for FY18 and FY19, respectively, comprised impairment expenses recognised in relation to the carrying value of Brand names, Chill Factor Trademarks and Patents, and other Licences and Trademarks.
- 5.19 Total impairment expenses of \$17.1m for FY17 comprised the full impairment of the carrying value of goodwill of \$14.2m plus other impairment expenses to the carrying value of Brand names, Chill Factor Trademarks and Patents, and other Licences and Trademarks of \$3.0m.
- 5.20 Losses from discontinued operations of \$3.8m for FY17 relate to losses of \$2.0m from discontinued operations in the US and \$1.8m in losses in relation to the divested Madman Entertainment ("Madman") operations. The decision to close the US operations was made in September 2016, with the existing customer base to be serviced from the head office in Australia. The losses resulting from Madman arose from the write-off of the amount receivable and legal costs arising out of a dispute around working capital and warranty claims which were settled in January 2017, as well as the result of make good claims from the landlord of a property previously used by Madman.
- 5.21 Profits from discontinued operations of \$91k for FY18 related to net gains arising from the discontinued Madman and US operations, while profits from discontinued operations of \$90k for FY19 related solely to profits arising from the US operations.
- 5.22 Losses from discontinued operations of \$108k for FY20 primarily related to losses arising from discontinued operations in Hong Kong and China operated by Fun International Limited and Fun Toy Products Consulting (Shenzhen) Company Limited, respectively.

Financial position

5.23 The table below sets out a summary of the consolidated financial position of Funtastic as at 31 July 2017, 31 July 2018, 31 July 2019 and 31 July 2020.

Funtastic Limited Historical Financial Position	Note	As at 31-Jul-17 \$'000	As at 31-Jul-18 \$'000	As at 31-Jul-19 \$'000	As at 31-Jul-20 \$'000
Current assets					
Cash and cash equivalents		664	718	465	367
Receivables		2,532	2,956	3,460	1,809
Inventories		7,010	5,305	5,037	1,373
Tax receivable		(117)	133	19	-
Other current assets		2,744	1,414	1,554	590
Assets held for sale		1,653	-	-	-
Total current assets		14,486	10,526	10,535	4,139
Non-current assets					
Property, plant and equipment		457	156	40	25
Intangible assets		4,287	976	212	102
Right-of-use assets		-	-	-	691
Other non-current assets		29	241	50	50
Total non-current assets		4,773	1,373	302	868
Total assets		19,259	11,899	10,837	5,007
Current liabilities					
Trade and other payables		9,213	3,774	4,241	1,325
Interest bearing liabilities	5.26, 5.27	24,597	18,189	1,657	478
Bill finance		27,965	2,000	-	-
Provisions		671	457	469	241
Lease liabilities		-	-	-	211
Other current liabilities		5,504	1,649	1,094	2,411
Liabilities held for sale		1,895	-	-	-
Total current liabilities		69,845	26,069	7,461	4,666
Non-current liabilities					
Interest bearing liabilities	5.26, 5.27	-	-	3,676	8,428
Provisions		27	21	21	13
Lease liabilities		-	-	-	535
Other non-current liabilities		101	75	-	-
Total non-current liabilities		128	96	3,697	8,976
Total liabilities		69,973	26,165	11,158	13,642
Net liabilities	5.24	(50,714)	(14,266)	(321)	(8,635)
Issued capital		209,483	217,400	224,848	225,166
Accumulated losses		(259,727)	(231,369)	(223,773)	(233,086)
Reserves		(470)	(297)	(1,396)	(715)
Total equity	5.24	(50,714)	(14,266)	(321)	(8,635)

Source: Audited financial statements

Table 5: Funtastic Financial Position

5.24 Funtastic disclosed net liabilities of \$50.7m, \$14.3m, \$321k and \$9.3m as at 31 July 2017, 31 July 2018, 31 July 2019 and 31 July 2020, respectively.

5.25 The overall reduction in net liabilities from 31 July 2017 to 31 July 2019 was due primarily to the restructure of the Company's debt facility with the NAB.

- 5.26 At 31 July 2019, total borrowings comprised \$1.7m in current debt, comprising a debtor finance facility with Scottish Pacific, and a non-current loan of \$3.7m due to Jaszac.
- 5.27 At 31 July 2020, total borrowings of \$8.9m comprised \$478k in debtor finance facilities and \$8.4m due to Jaszac.

Capital structure

- 5.28 As at 27 September 2020, Funtastic had 240,404,075 ordinary shares on issue of which 70.93% were held by the top 20 shareholders. The top 20 Funtastic shareholders are set out in the table below.

Shareholder	Number	%
JASZAC INVESTMENTS PTY LTD	47,154,705	19.61%
BOND STREET CUSTODIANS LIMITED (THEO ANDRIOPOULOS)	23,652,306	9.84%
G HARVEY NOMINEES PTY LTD	22,113,602	9.20%
PHILRENE PTY LTD	11,555,178	4.81%
UBS NOMINEES PTY LTD	11,204,064	4.66%
APES WITH WINGS PTY LTD	9,200,000	3.83%
BT PORTFOLIO SERVICES LIMITED	8,990,000	3.74%
ANGIE TARAS	5,000,000	2.08%
CITICORP NOMINEES PTY LIMITED	4,288,270	1.78%
VAWDREY NOMINEES PTY LTD	3,296,324	1.37%
MR STEVEN DOUGLAS LEIGHTON	3,243,836	1.35%
BT PORTFOLIO SERVICES LIMITED	3,006,512	1.25%
MRS ANNABEL JANE MACKENZIE	2,882,091	1.20%
BT PORTFOLIO SERVICES LIMITED	2,773,000	1.15%
HEATH NOMINEES (AUST) PTY LTD	2,640,706	1.10%
BNP PARIBAS NOMINEES PTY LTD	2,248,000	0.94%
BELL POTTER NOMINEES LTD	2,007,617	0.84%
MR ATHAR JAMEEL BHUTTO	2,000,000	0.83%
BT PORTFOLIO SERVICES LIMITED	1,853,630	0.77%
BODIE INVESTMENTS PTY LTD	1,400,000	0.58%
	170,509,841	70.93%
Other Shareholders	69,894,234	29.07%
Total	240,404,075	100.00%

Source: Funtastic share registry as at 27 September 2020

Table 6: Funtastic shareholder summary

Share price performance

5.29 The chart below sets out a summary of Funtastic's recent daily closing share price and traded volumes on the ASX to 30 September 2020 (the last day shares were traded to the date of this Report).

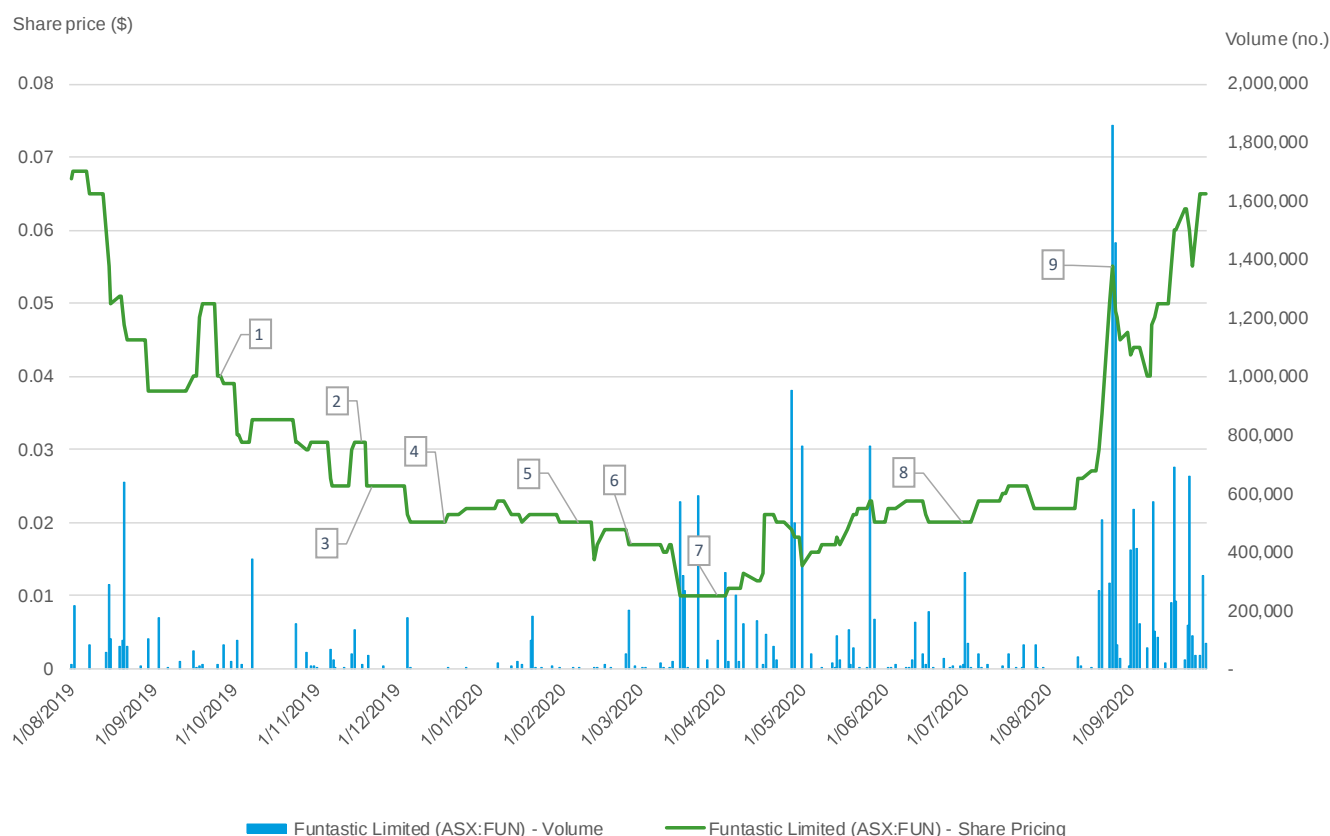


Chart 2: Funtastic traded share price and volume chart

5.30 Over the period above, Funtastic's shares have traded from a high of \$0.068 on 2 August 2019 to a low of \$0.010 (16 March 2020 to 2 April 2020).

5.31 Notable dates with regards to movements in share price and volumes traded include:

1. On 26 September 2019, the Company released its preliminary final report for FY19, including preliminary net profit after tax from continuing operations of \$7.5m (unaudited). This represented a 73.4% decrease compared to the previous years' result of \$28.2m.
2. On 18 November 2019, the Company advised that it intended to offer shareholders the opportunity to participate in a Share Purchase Plan ("SPP") under which the Company was seeking to raise up to approximately \$1,675,000. Funds raised under the SPP would be used to fund the Company's activities including the launch of new product ranges, the continuation of the Company's strategic turnaround plan and to pay the costs of the SPP. The SPP gave eligible shareholders the opportunity to purchase up to \$30,000 of new fully paid ordinary shares in the Company at an issue price of \$0.024 per share, free of all brokerage and commission charges.
3. On 22 November 2019, the Company confirmed that the SPP was open to eligible shareholders.
4. On 19 December 2019, the Company advised the closure of the SPP. The Company raised \$134,000 and received valid applications from 30 shareholders.

5. On 7 February 2020, the Company announced that after consumer spending over the Christmas period was worse than expected, Funtastic expected an EBITDA loss of \$3.3m to \$3.5m for the half year ended 31 January 2020. In addition, the Company advised that it brought about an early termination of the Thinkway Toys contract, which is estimated to adversely impact revenue by \$1.0m to \$1.5m over the remaining original contract period. Further, the Company announced an increase to its Secured Loan Agreement (maturing 31 December 2023) with Jaszac (Funtastic's largest shareholder), for an additional \$6.2m in funding over a four-year period.
6. On 27 February 2020, the Company announced that as a result of undertaking a strategic review of the business, the Company will be restructured to exit the toy distribution and apparel divisions and increase its focus on product ranges offering growth potential.
7. On 1 April 2020, the Company released its financial report for the half-year ended 31 January 2020. The Company advised that the outlook for the second half of FY20 was highly uncertain given the impact of the COVID-19 pandemic. For the half-year ended 31 January 2020, the Company reported a loss of \$4.19m. This is compared to a profit of \$14.34m for the half-year ended 31 January 2019.
8. On 2 July 2020, the Company advised that Mr David Jackson (Chief Executive Officer) resigned and would leave the Company during the first quarter of the 2021 financial year.
9. On 25 August 2020, the ASX issued a share price query to Funtastic noting the change in the Company's share price from a low of \$0.028 on 20 August 2020 to an intra-day high of \$0.075 on 25 August 2020, together with the significant increase in the volume of traded shares. Funtastic provided a response stating that the Company was in early stage discussions in relation to a potential acquisition (Potential Transaction), however, the Potential Transaction remained subject to negotiation and accordingly, was insufficiently definite to warrant disclosure as of 25 August. Following the Company's formal response to the ASX, Funtastic also announced that it was in early stage discussions regarding the Potential Transaction.
10. On 1 October 2020, Funtastic's shares were placed in a trading halt at the Company's request, pending an announcement of a proposed transaction. On 5 October and 12 October 2020, the Company requested an extension of the voluntary suspension for its ordinary shares, citing negotiations regarding a potential acquisition remaining ongoing between the parties.

5.32 Following the low of \$0.010 from 16 March 2020 to 2 April 2020, the Company's share price ranged from \$0.011 to \$0.027 over the period from 3 April 2020 to 19 August 2020. Thereafter, the share price rose to the intra-day high of \$0.075 on 25 August 2020 as set out above (and closed at \$0.055). Thereafter, the share price has fluctuated between \$0.040 and \$0.065 to 30 September 2020.

6. Profile of HWG

Mittoni Pty Ltd (MPL)

Background

- 6.1 Mr Louis Mittoni established MPL in 1999. MPL is an Australian-owned company specialising in the import, wholesale and distribution of extreme performance computer components, thermal solutions, gaming peripherals, digital storage and other leading digital accessories.
- 6.2 As an IT wholesaler and distributor, MPL offers IT channel sales only and does not sell directly to the public.

Corporate Structure

- 6.3 Mittoni Holdings Pty Ltd as trustee for the Mittoni Family Trust, holds a 99.99% interest in MPL (162,321 out of the 162,334 ordinary shares on issue). Louis Mittoni and Gina Georgousis hold a 100% interest in Mittoni Holdings Pty Ltd. The remaining 12 ordinary shares in MPL are beneficially held by Louis Mittoni and Gina Georgousis.

Financial Information

- 6.4 The information in the following section provides a summary of the financial performance and financial position of MPL for the years ended 30 June 2017 ("FY17"), 30 June 2018 ("FY18"), 30 June 2019 ("FY19") and 30 June 2020 ("FY20"), extracted from MPL's unaudited financial statements.

Financial Performance

- 6.5 The following table sets out a summary of the financial performance of MPL (on a standalone basis) for FY17, FY18, FY19 and FY20.

Mittoni Pty Ltd Historical Financial Performance	Note	FY17 \$'000	FY18 \$'000	FY19 \$'000	FY20 \$'000
Sales	6.6	23,733	25,319	25,352	14,892
Cost of sales	6.6	(20,707)	(21,706)	(22,122)	(11,249)
Gross profit	6.6	3,026	3,613	3,231	3,643
Other income		176	244	336	394
Employee expenses		(1,002)	(1,064)	(1,266)	(1,138)
Freight and cartage		(749)	(940)	(1,011)	(1,719)
Occupancy expenses		(351)	(308)	(313)	(340)
Insurance expenses		(76)	(70)	(81)	(78)
Printing and packaging expenses		(64)	(61)	(86)	(51)
Other expenses		(205)	(233)	(261)	(349)
Total operating expenses	6.7	(2,446)	(2,676)	(3,018)	(3,674)
EBITDA	6.8	756	1,182	549	363
Finance expenses		(278)	(336)	(330)	(182)
Depreciation expenses		(64)	(68)	(75)	(63)
Profit before income tax		413	777	144	119
Income tax expense		(128)	(238)	(42)	(21)
Net profit		285	540	102	98

Source: MPL compiled financial statements

Table 7: MPL Financial Performance

- 6.6 MPL disclosed sales of \$14.9m for FY20, compared to sales of approximately \$25m for both FY18 and FY19. The decrease was due primarily to a change in operations following the award of the TRU License Agreement. MPL discontinued the sales and distribution of products with gross profit margins of less than 10%. As a result, MPL disclosed a gross profit margin of 24.5% for FY20 compared to historical gross profit margins of circa 13% for FY17 to FY19, resulting in gross profit of \$3.6m, consistent with FY18 levels and a slight increase compared to FY19.
- 6.7 Operating expenses primarily comprised employee expenses, freight and cartage, and occupancy costs. Other expenses primarily related to administrative, maintenance and travel expenses.
- 6.8 MPL generated earnings at the EBITDA level of \$363k for FY20, an overall decline compared to the previous three financial years. The decline was primarily attributed to an overall increase in freight and cartage costs due to increased orders being fulfilled from its warehouse distribution centre, larger number of

smaller orders, and costs associated with increased order numbers in other divisions of the Hobby Warehouse Group including HWPL and TRUL.

Financial Position

6.9 The table below sets out a summary of the financial position of MPL (on a standalone basis) as at 30 June 2017, 30 June 2018, 30 June 2019 and 30 June 2020.

Mittoni Pty Ltd Historical Financial Position	Note	As at 30-Jun-17 \$'000	As at 30-Jun-18 \$'000	As at 30-Jun-19 \$'000	As at 30-Jun-20 \$'000
Current assets					
Cash and cash equivalents		656	326	178	368
Trade and other receivables		4,237	2,506	2,406	1,840
Loans to related entities	6.11	2,810	2,124	2,457	1,800
Unpaid present entitlements	6.11	986	986	986	986
Inventory		1,910	3,121	1,351	899
Prepaid expenses		60	25	64	63
Provision for income tax		-	-	83	-
Total current assets		10,659	9,089	7,527	5,956
Non-current assets					
Property, plant and equipment		296	292	302	302
Intangible assets	6.13	489	489	489	489
Total non-current assets		784	781	791	791
Total assets		11,444	9,871	8,318	6,747
Current liabilities					
Trade and other payables		2,066	1,776	1,258	1,186
Borrowings	6.12	5,363	4,280	3,664	2,646
Provision for income tax		79	1	-	21
Total current liabilities		7,508	6,057	4,922	3,853
Non-current liabilities					
Borrowings		82	-	-	-
Total non-current liabilities		82	-	-	-
Total liabilities		7,590	6,057	4,922	3,853
Net assets	6.10	3,854	3,814	3,396	2,894
Issued capital (162,334 ordinary shares)		1,623	1,623	1,623	1,623
Retained earnings		2,231	2,191	1,773	1,271
Total equity	6.10	3,854	3,814	3,396	2,894

Source: MPL compiled financial statements

Table 8: MPL Financial Position

- 6.10 As at 30 June 2020, MPL disclosed net assets of \$2.9m, compared to \$3.4m and \$3.8m at 30 June 2019 and 30 June 2018, respectively. The decline in net assets was due to dividends paid of \$600k and \$520k paid during FY20 and FY19, respectively.
- 6.11 At 30 June 2020, loans due from related entities of \$1.8m comprised loans due from Hobby Warehouse Pty Ltd (HWPL) and from the Mittoni Family Trust of \$1.3m and \$464k, respectively. MPL also disclosed unpaid present entitlements receivable of \$986k at 30 June 2020.
- 6.12 Current borrowings totalling \$2.6m at 30 June 2020 comprised primarily of bank finance facilities.
- 6.13 Intangible assets relate to internally generated goodwill recognised from the restructure of company shares on 1 July 2011 from the family trust structure.

Hobby Warehouse Pty Ltd (HWPL)

Background

- 6.14 Mr Mittoni established HWPL in 2011. HWPL is an online retailer that specialises in selling hobby products, including model kits, arts and craft sets, radio-controlled vehicles, collectibles and other hobby materials and supplies.
- 6.15 In May 2019, HWPL and Toys R Us Licensee Pty Ltd (TRUL) entered into the TRU License Agreement with TRUK, comprising an exclusive 30-year license agreement with the Intellectual Property (IP) owners of Toys “R” Us and Babies “R” Us. The TRU License Agreement provides exclusive rights to market and sell toys under the Toys “R” Us and Babies “R” Us brands.

Corporate Structure

- 6.16 Mittoni Holdings Pty Ltd as trustee for the Mittoni Family Trust, holds a 98% interest in HWPL (98 out of the 100 HWPL shares on issue). The remaining 2 shares are beneficially held by Louis Mittoni and Gina Georgousis.

Financial Information

- 6.17 The information in the following section provides a summary of the financial performance and financial position of HWPL for the years ended 30 June 2017 (FY17), 30 June 2018 (FY18), 30 June 2019 (FY19) and 30 June 2020 (FY20), extracted from HWPL’s unaudited financial statements.

Financial Performance

- 6.18 The following table sets out a summary of the financial performance of HWPL (on a standalone basis) for FY17, FY18, FY19 and FY20.

Hobby Warehouse Pty Ltd		FY17	FY18	FY19	FY20
Historical Financial Performance	Note	\$'000	\$'000	\$'000	\$'000
Sales	6.19	3,862	5,779	6,140	5,783
Cost of sales		(2,880)	(4,291)	(4,594)	(4,210)
Gross profit	6.19	982	1,488	1,545	1,572
Other income	6.20	-	-	-	174
Employee expenses		(288)	(441)	(474)	(945)
Advertising expenses		(235)	(296)	(366)	(225)
Transaction fees		(188)	(487)	(452)	(382)
Other expenses		(264)	(259)	(42)	(53)
Total operating expenses	6.21	(974)	(1,484)	(1,333)	(1,605)
EBITDA	6.22	8	4	212	141
Depreciation expenses		(1)	(2)	(4)	(4)
Profit before income tax		8	2	208	137
Income tax expense		(2)	(1)	(57)	(26)
Net profit		6	1	151	111

Source: HWPL compiled financial statements

Table 9: HWPL Financial Performance

- 6.19 HWPL disclosed sales of \$5.8m for FY20, relatively consistent with sales disclosed for FY18 and FY19 of \$5.8m and \$6.1m, respectively. Gross profit margins have also remained relatively consistent over the historical period, ranging from 25% to 27%.

- 6.20 Other income for FY20 primarily comprised JobKeeper wage subsidies and tax-free cash flow boost payments in relation to the COVID-19 pandemic, as well as supplier subsidies.
- 6.21 Operating expenses primarily comprise employee expenses, transaction fees (comprising merchant, eBay, PayPal, ZipPay and Afterpay fees), and advertising costs.
- 6.22 HWPL disclosed break-even earnings at the EBITDA level for FY17 and FY18, and EBITDA of \$212k for FY19. HWPL disclosed earnings at the EBITDA level of \$212K and \$141K for FY19 and FY20, respectively, with earnings impacted slightly by the COVID-19 pandemic.

Financial Position

- 6.23 The table below sets out a summary of the financial position of HWPL (on a standalone basis) as at 30 June 2017, 30 June 2018, 30 June 2019 and 30 June 2020.

Hobby Warehouse Pty Ltd Historical Financial Position	Note	As at 30-Jun-17 \$'000	As at 30-Jun-18 \$'000	As at 30-Jun-19 \$'000	As at 30-Jun-20 \$'000
Current assets					
Cash and cash equivalents	6.25	46	59	83	24
Sundry debtors		-	-	-	24
Inventory	6.25	1,987	2,260	2,206	1,907
Black Hole Expenditure - Legal Fees		-	-	22	16
Provision for income tax		-	6	3	1
Total current assets		2,032	2,325	2,314	1,972
Non-current assets					
Property, plant and equipment		1	4	8	4
Total non-current assets		1	4	8	4
Total assets		2,033	2,329	2,321	1,976
Current liabilities					
Trade and other payables	6.26	1,990	441	339	428
Loans from related entities	6.26	-	1,845	1,733	1,218
Provision for income tax		2	1	57	26
Total current liabilities		1,992	2,287	2,129	1,673
Total liabilities		1,992	2,287	2,129	1,673
Net assets	6.24	41	42	192	303
Issued capital (100 ordinary shares)		0	0	0	0
Retained earnings		41	42	192	303
Total equity	6.24	41	42	192	303

Source: HWPL compiled financial statements

Table 10: HWPL Financial Position

- 6.24 As at 30 June 2020, HWPL disclosed net assets of \$303k compared to \$192k at 30 June 2019.
- 6.25 Total assets of \$2.0m at 30 June 2020 primarily comprised inventory of \$1.9m and cash and cash equivalents of \$24k.
- 6.26 Total liabilities of \$1.7m at 30 June 2020 primarily comprised loans due to related entities of \$1.2m and trade and other payables of \$428k. The loans due to related entities comprised a loan due to MPL of \$1.3m (refer paragraph 6.11), offset by a loan receivable from TRUL of \$118k).

Toys R Us Licensee Pty Ltd (TRUL)

Background

- 6.27 Following the closure of Australian Toys “R” Us stores in August 2018, HWPL and TRUL entered into the TRU License Agreement with TRUK in May 2019 comprising an exclusive 30-year license agreement that provides exclusive rights to market and sell products under the Toys “R” Us and Babies “R” Us brands, including toys, baby products and other consumer brands.
- 6.28 HWPL launched Toys “R” Us and Babies “R” Us online in Australia and New Zealand in June 2019, and TRUL commenced trading in October 2019.
- 6.29 The TRU License Agreement includes the rights to sell through the www.toysrus.com.au and www.babiesrus.com.au websites for Australia and New Zealand including:
- Top toy and baby products from LEGO®, Disney (Marvel, Star Wars, Disney Pixar, and Disney Princess), Funko, Mattel (Barbie®, Hot Wheels®, Fisher-Price®, and Uno®), L.O.L. Surprise!, Hasbro (My Little Pony, NERF, and Monopoly), Bandai, Spin Master (Meccano®, Air Hogs®, PAW Patrol®, and Hatchimals®), PLAY-DOH, Thomas & Friends®, Monster Jam®, Lamaze, John Deere, Bruder, Carrera, Wilson, Britax, and InfaSecure; and
 - Consumer brands owned by Tru Kids including toy products such as Journey Girls®, Fastlane®, True Heroes®, You & Me®, Imaginarium® and Just Like Home® as well as baby products including Koala Baby®, Koala Kids® and Koala Baby Boutique®.

Corporate Structure

- 6.30 Hobby Warehouse Holdings Pty Ltd as trustee for the Hobby Warehouse Trust holds a 100% equity interest in TRUL (1 ordinary share). Hobby Warehouse Holdings Pty Ltd is 100% owned by Louis Mittoni and Gina Georgousis.

Financial Information

- 6.31 The information in the following section provides a summary of the financial performance and financial position of TRUL for the years ended 30 June 2019 (FY19) and 30 June 2020 (FY20), extracted from TRUL’s unaudited financial statements. Operations attributable to the TRU License Agreement and sales via the Toys “R” Us and Babies “R” Us websites have been included in the accounts of TRUL.

Financial Performance

- 6.32 The following table sets out a summary of the financial performance of TRUL (on a standalone basis) for FY19 and FY20.

Toys R Us Licensee Pty Ltd Historical Financial Performance		FY19 \$'000	FY20 \$'000
Sales	6.34	53	7,880
Cost of sales		(37)	(5,523)
Gross profit		16	2,358
Other income		-	5
Advertising	6.35	(3)	(834)
Licensing fees	6.35	-	(718)
Transaction fees	6.35	(1)	(562)
Prelaunch expenses		(8)	(8)
Other expenses		-	(138)
Total operating expenses	6.35	(12)	(2,260)
EBITDA		5	103
Finance expenses		-	-
Depreciation expenses		-	-
Profit before income tax		5	103
Income tax expense		-	(23)
Net profit		5	80

Source: TRUL management accounts

Table 11: TRUL Financial Performance

- 6.33 Operations for FY19 comprised sales for less than 1 month as the Toys “R” Us website launched on 12 June 2019 with a “soft launch”, comprising a limited number of products and website features. Operating expenses primarily comprised prelaunch direct expenses and advertising costs.
- 6.34 TRUL disclosed sales of \$7.9m and gross profit of \$2.4m for FY20 (gross profit margin of 30%).
- 6.35 Operating expenses totalling \$2.3m primarily comprised advertising costs, licensing fees and transaction fees of \$834k, \$718k and \$562k, respectively. Transaction fees relate to fees paid to merchants, Zip Pay, Afterpay and PayPal.
- 6.36 TRUL disclosed earnings at the EBITDA level of \$103k for FY20 (EBITDA margin of 1%).

Financial Position

6.37 The table below sets out a summary of the financial position of TRUL (on a standalone basis) as at 30 June 2019 and 30 June 2020.

Toys R Us Licensee Pty Ltd Historical Financial Position	Note	As at 30-Jun-19 \$'000	As at 30-Jun-20 \$'000
Current assets			
Cash and cash equivalents	6.39	12	81
GST payable		1	-
Prelaunch expenses	6.39	31	23
Total current assets	6.39	44	104
Non-current assets			
Intangible assets	6.39, 6.40	435	524
Total non-current assets		435	524
Total assets		479	627
Current liabilities			
Trade and other creditors	6.41	348	402
Loans from related entities	6.41	127	118
Provision for income tax		-	23
Total current liabilities		475	543
Total liabilities	6.41	475	543
Net assets	6.38	4	84
Issued capital (1 ordinary share)		0	0
Retained earnings		4	84
Total equity	6.38	4	84

Source: TRUL management accounts

Table 12: TRUL Financial Position

- 6.38 As at 30 June 2020, TRUL disclosed net assets of \$84k. The company has 1 ordinary share on issue, held by Hobby Warehouse Holdings Pty Ltd.
- 6.39 Total assets of \$627k at 30 June 2020 comprised intangible assets of \$524k, cash and cash equivalents of \$81k and capitalised prelaunch expenses of \$23k.
- 6.40 Intangible assets recognised relate to an Electronic Direct Mail (EDM) customer database of 1.21m subscribers of toy and baby focused products, including a 370,000 opted-in SMS contact database, and a list of registered domain names.
- 6.41 Total liabilities of \$543k at 30 June 2020 primarily comprised trade and other creditors and loans due to related parties of \$402k and \$118k, respectively. The related party loan comprised amounts due to HWPL (refer paragraph 6.26).

HWG Amalgamated Financial Performance and Financial Position

- 6.42 HWG is not a consolidating group and accordingly, does not prepare consolidated financial statements. The table below sets out a summary of the amalgamated financial performance of HWG for the year ended 30 June 2020 (FY20) and the two-month period ended 31 August 2020 ("YTD20").

HWG Amalgamated Financial Performance	Note	FY20 \$'000	YTD21 \$'000
Sales	6.43, 6.44	28,708	5,963
Cost of sales		(20,990)	(4,267)
Gross profit		7,718	1,695
Other income		377	130
Employee expenses		(2,084)	(335)
Freight and cartage		(1,720)	(399)
Advertising expenses		(1,040)	(169)
Transaction fees		(943)	(218)
Licensing fees		(718)	(161)
Occupancy expenses		(340)	(106)
Printing and packaging expenses		(154)	-
Insurance expenses		(78)	(13)
Other expenses		(391)	(97)
Total operating expenses		(7,467)	(1,497)
EBITDA	6.43, 6.44	628	328
Finance expenses		(181)	(20)
Depreciation expenses		(74)	(13)
Profit before income tax		372	295

Source: Management accounts

Table 13: HWG Amalgamated Financial Performance

- 6.43 As set out above, HWG generated sales of \$28.7m and EBITDA of \$628k for FY20 (EBITDA margin of 2%). Based on our review of the standalone and amalgamated accounts provided, we consider the amalgamated financial performance disclosed for FY20 to be materially consistent with the financial performance disclosed for each entity on a standalone basis.
- 6.44 For the 2-month period ended 31 August 2020, HWG generated sales of \$6.0m and EBITDA of \$328k (EBITDA margin of 5%). The financial performance disclosed for YTD20 reflected the increasing scale of sales generated by HWG from circa \$2m per month for FY19 and the first half of FY20, to just under \$3m per month for the final quarter of FY20 and YTD21.

- 6.45 The table below sets out a summary of the amalgamated financial position of HWG as at 30 June 2020 and 31 August 2020.

HWG Amalgamated Financial Position	Note	As at 30-Jun-20 \$'000	As at 31-Aug-20 \$'000
Current assets			
Cash and cash equivalents		288	369
Trade and other receivables		2,078	2,130
Loans to related entities		1,623	-
Unpaid present entitlements		409	92
Inventory		2,799	2,761
Total current assets		7,198	5,352
Non-current assets			
Property, plant and equipment		306	334
Intangible assets		1,065	1,049
Total non-current assets		1,370	1,383
Total assets		8,568	6,735
Current liabilities			
Trade and other payables		1,994	2,127
Borrowings	6.47	2,611	2,475
Provision for income tax		(1)	8
Total current liabilities		4,604	4,610
Total liabilities		4,604	4,610
Net assets	6.46	3,965	2,125
Issued capital		1,623	1,623
Retained earnings		2,341	502
Total equity	6.46	3,965	2,125

Source: Management accounts

Table 14: HWG Amalgamated Financial Position

- 6.46 At 31 August 2020, HWG disclosed net assets of \$2.1m compared to \$4.0m at 30 June 2020. The decrease in net assets is due primarily to dividends paid in accordance with the SSD prior to the completion of the Proposed Transactions.
- 6.47 At 31 August 2020, HWG disclosed total current borrowings of \$2.48m, comprising bank finance facilities of \$2.44m and credit card debt of \$40k.
- 6.48 At 31 August 2020, HWG disclosed net debt of \$2.0m (calculated as cash and cash equivalents plus unpaid present entitlements receivable, less borrowings). Net debt disclosed by HWG will form part of the Proposed Transactions.

7. Valuation Approach

Basis of Valuation

- 7.1 The valuation of a Funtastic share prior to, and immediately after the Proposed Transactions has been prepared on the basis of Fair Value being the value that should be agreed in a hypothetical transaction between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, acting at arm's length.

Valuation methodologies

- 7.2 In assessing the value of a Funtastic share prior to and immediately following the Proposed Transactions, we have considered a range of valuation methodologies. RG 111 proposes that it is generally appropriate for an expert to consider using the following methodologies:
- the discounted cash flow ("DCF") method and the estimated realisable value of any surplus assets;
 - the application of earnings multiples to the estimated future maintainable earnings or cash flows added to the estimated realisable value of any surplus assets;
 - the amount which would be available for distribution on an orderly realisation of assets;
 - the quoted price for listed securities; and
 - any recent genuine offers received.
- 7.3 We consider that the valuation methodologies proposed by RG 111 can be split into three valuation methodology categories, as follows:
- Market Based Methods;
 - Income Based Methods; and
 - Asset Based Methods.

Market based methods

- 7.4 Market based methods estimate the Market Value by considering the market value of a company's securities or the market value of comparable companies. Market based methods include;
- the quoted price for listed securities; and
 - industry specific methods.
- 7.5 The recent quoted price for listed securities method provides evidence of the fair value of a company's securities where they are publicly traded in an informed and liquid market.
- 7.6 Industry specific methods usually involve the use of industry rules of thumb to estimate the fair market value of a company and its securities. Generally, rules of thumb provide less persuasive evidence of the fair market value of a company than other market-based valuation methods because they may not account for company specific risks and factors.

Income based methods

- 7.7 Income based methods estimate value by calculating the present value of a company's estimated future stream of earnings or cash flows. Income based methods include:
- capitalisation of maintainable earnings; and
 - discounted cash flow (DCF) methods.
- 7.8 The DCF technique has a strong theoretical basis, valuing a business on the net present value of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value or the terminal value of the company's cash flows at the end of the forecast period. This method of valuation is appropriate when valuing companies where future cash flow projections can be made with a reasonable degree of confidence.
- 7.9 The capitalisation of earnings methodology is generally considered a short form DCF, where an estimation of the Future Maintainable Earnings ("FME") of the business, rather than a stream of cash flows is capitalised based on an appropriate capitalisation multiple. Multiples are derived from the analysis of transactions involving comparable companies and the trading multiples of comparable companies.

Asset based methods

- 7.10 Asset based methodologies estimate the Market Value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:
- orderly realisation of assets method;
 - liquidation of assets method; and
 - net assets on a going concern basis.
- 7.11 The value achievable in an orderly realisation of assets is estimated by determining the net realisable value of the assets of a company which would be distributed to security holders after payment of all liabilities, including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. This technique is particularly appropriate for businesses with relatively high asset values compared to earnings and cash flows.
- 7.12 The liquidation of assets method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a shorter time frame.
- 7.13 The net assets on a going concern method estimates the market values of the net assets of a company but unlike the orderly realisation of assets method it does not take into account realisation costs. Asset based methods are appropriate when companies are not profitable, a significant proportion of the company's assets are liquid, or for asset holding companies.

Selection of Valuation Methodologies

Valuation of a Funtastic share prior to the Proposed Transactions (controlling basis)

- 7.14 Income based methods are appropriate where earnings of the business are maintainable and sufficient to justify a value exceeding the value of the underlying assets.
- 7.15 Funtastic disclosed losses at the EBITDA level of \$7.6m for FY20, and excluding income recognised in relation to the forgiveness of the Company's loans with NAB in FY18 and FY19, the Company disclosed losses at the EBITDA level of \$3.5m and \$7.0m for FY18 and FY19, respectively. The Company has actively sought funding to fund existing business activities. As a result, and in accordance with RG 111, we have not utilised an income-based methodology in our assessment of the Fair Value of a Funtastic share.

- 7.16 The Company also disclosed net liabilities as at 31 July 2017, 31 July 2018, 31 July 2019 and 31 July 2020, respectively. Accordingly, we have not utilised asset-based methods in valuing a share in the Company.
- 7.17 We have utilised the quoted market price for listed Funtastic shares as our primary methodology. Funtastic's shares are listed on the ASX which means there is a regulated and observable market for its shares. Notwithstanding the low liquidity of Funtastic's shares (discussed in further detail in section 7), we have utilised the quoted market price as our primary methodology in valuing a Funtastic share.

Valuation of Funtastic immediately after the Proposed Transactions (non-controlling or minority interest basis)

- 7.18 In order to assess the value of a Funtastic share immediately after the Proposed Transactions, it is necessary to consider the Company's value utilising a sum of parts methodology:
- we have assessed the Fair Value of HWG being acquired by Funtastic, utilising the capitalisation of FME methodology; and
 - consistent with our methodology prior to the Proposed Transactions, we have valued Funtastic (excluding HWG to be acquired) using the quoted market price of Funtastic's shares.
- 7.19 As the approval of the Proposed Transactions will result in the decrease of Non-Associated Shareholders' interest in Funtastic from 80.39% to 22.85% (on an undiluted basis) immediately after the Proposed Transactions, in accordance with RG 111, we have ascribed a discount for lack of control to the value of a Funtastic share immediately after the Proposed Transactions.
- 7.20 The financial forecasts prepared by HWG for the 10 years ending 30 June 2030 include forecast earnings attributable to HWG's plans to launch physical stores for Toys "R" Us and Babies "R" Us and wholesale sales of products. A significant component of this growth is proposed to be funded by the Placement.
- 7.21 As we have not considered the Placement in our assessment of fairness, and given the significant increase in the scale of forecast operations over the 10-year forecast period which are to be funded by the Placement, we do not consider it appropriate to utilise the DCF methodology.

8. Valuation of Funtastic prior to the Proposed Transactions

- 8.1 The basis of our evaluation of “fairness” is to compare the Fair Value of a Funtastic share prior to, and immediately after the Proposed Transactions.

Valuation of a Funtastic share prior to the Proposed Transactions (on a controlling basis)

- 8.2 As stated in section 7, we have assessed the value of a Funtastic share prior to the Proposed Transactions using the quoted market price for listed Funtastic shares as our primary methodology.
- 8.3 We have considered the recent quoted market price of Funtastic shares prior to the announcement of the Proposed Transactions.
- 8.4 RG 111.69 indicates that for the quoted market share price methodology to represent a reliable indicator of Market Value, there needs to be an active and liquid market for the securities. The following characteristics may be considered to be representative of a liquid and active market:
- regular trading in the company's securities;
 - approximately 1% of a company's securities traded on a weekly basis;
 - the bid/ask spread of a company's shares must not be so great that a single majority trade can significantly affect the market capitalisation of the company; and
 - there are no significant but unexplained movements in the share price.
- 8.5 As at the date of this Report, details of the Proposed Transactions have not been announced to the market. However, as set out in paragraph 5.31(9), the ASX issued a share price query to Funtastic noting the change in the Company's share price from a low of \$0.028 on 20 August 2020 to an intra-day high of \$0.061 on 25 August 2020. The Company announced on 25 August 2020 that it was in early stage discussions regarding a Potential Transaction.
- 8.6 To provide further analysis of the quoted market prices for Funtastic's shares, we have considered the volume weighted average share price (VWAP) over a number of trading day periods prior to 25 August 2020. An analysis of the volume in trading in Funtastic's shares for the 5, 10, 30, 60, 90, 120 and 180-day trading periods is set out in the following table.

Calendar days	Share price Low \$	Share price High \$	No. of days traded	Volume traded	Value traded \$	VWAP \$	Percentage of issued capital %
5 days	0.030	0.050	3	1,069,690	40,486	0.038	0.4%
10 days	0.026	0.050	4	1,070,630	40,512	0.038	0.4%
30 days	0.022	0.050	9	1,205,990	43,692	0.036	0.5%
60 days	0.020	0.050	23	1,872,930	57,949	0.031	0.8%
90 days	0.020	0.050	36	2,501,320	71,303	0.029	1.0%
120 days	0.014	0.050	51	5,918,020	134,781	0.023	2.5%
180 days	0.010	0.050	75	9,053,740	170,186	0.019	3.8%

Source: Capital IQ and RSM analysis

Table 15: VWAP and traded volume of Funtastic shares prior to 25 August 2020

- 8.7 We note the following:
- only 0.5% and 3.8% of Funtastic's quoted shares were traded in the 30-day and 180-day trading period prior to the ASX price query and the announcement of a Potential Transaction, respectively;

- Funtastic's VWAP was \$0.038 for the 5-day and 10-day trading period, \$0.036 for the 30-day trading period and thereafter, ranged from \$0.019 to \$0.031 over the 60-day to 180-day trading period prior to the announcement of a Potential Transaction; and
- the bid/ask spread is often used to measure efficiency. For the 180-day period, the closing bid/ask spread of Funtastic averaged 24.5% of the midpoint price. On the basis that, over a comparable period, all stocks trading on the ASX had an average bid-ask spread of 0.250%¹, we consider the bid/ask spread of Funtastic to be large.

8.8 We have also considered the VWAP for the 5, 10, 30, 60, 90, 120 and 180-day trading periods prior to 20 August 2020, the date the ASX price query referenced when comparing the increase in Funtastic's share price, as set out in the table below.

Calendar days	Share price Low \$	Share price High \$	No. of days traded	Volume traded	Value traded \$	VWAP \$	Percentage of issued capital %
5 days	0.026	0.027	1	940	25	0.027	0.0004%
10 days	0.022	0.027	3	51,550	1,341	0.026	0.02%
30 days	0.022	0.027	8	216,130	5,201	0.024	0.1%
60 days	0.020	0.027	22	836,730	18,132	0.022	0.3%
90 days	0.020	0.027	36	2,200,810	48,502	0.022	0.9%
120 days	0.014	0.027	48	4,848,330	94,294	0.019	2.0%
180 days	0.010	0.027	74	8,234,490	134,060	0.016	3.4%

Source: Capital IQ and RSM analysis

Table 16: VWAP and traded volume of Funtastic shares prior to 20 August 2020

8.9 We note the following:

- the volume of traded shares for the 30-day and 180-day trading period prior to 20 August 2020 was even lower, with only 0.1% and 3.4% of quoted shares traded, respectively;
- Funtastic's VWAP was \$0.026 and \$0.024 for the 10-day and 30-day trading period prior to 20 August 2020, respectively, and \$0.022 for the 60-day and 90-day trading period. Thereafter, the VWAP ranged from \$0.016 to \$0.019 for the 120-day and 180-day trading period prior to 20 August 2020;
- for the 180-day period prior to 20 August 2020, the closing bid/ask spread of Funtastic averaged 25.1% of the midpoint price; and
- notwithstanding the low levels of liquidity, Funtastic complies with the full disclosure regime required by the ASX. As a result, the market is fully informed about the performance of Funtastic.

8.10 We have utilised the quoted market price as our primary valuation methodology for the following reasons:

- as set out in section 5, Funtastic disclosed losses at the EBITDA level of \$7.7m for FY20, and excluding income recognised in relation to the forgiveness of the Company's loans with NAB in FY18 and FY19, the Company disclosed losses at the EBITDA level of \$3.5m and \$7.0m for FY18 and FY19, respectively; and
- as set out in section 5, the Company disclosed net liabilities of \$8.6m at 31 July 2020 and the Company is reliant on loans from Jaszac, its largest shareholder, for working capital purposes. As such, we consider that a valuation of Funtastic utilising the net assets on a going concern is not reflective of the Fair Value of a Funtastic share and accordingly, we have not adopted this methodology.

¹ Equity market data for the quarter ended 30 June 2020 – ASIC

- 8.11 Based on the above, we consider the quoted market price to be most reflective of the value of Funtastic's securities at the date of our Report.
- 8.12 Having specific regard to the VWAP during the 30 to 60-day VWAP prior to 20 August 2020, we have assessed the value of a Funtastic share (on a non-controlling basis) to be \$0.022 to \$0.024.
- 8.13 The value above is indicative of the value of a marketable parcel of securities assuming a holder does not have control of the Company. In the case of a section 611, item 7 acquisition, RG 111 states that the independent expert should calculate the value of a target's securities as if 100% control were being obtained. Therefore, in our assessment of the Fair Value of a Funtastic share, we should include a premium for control.

Premium for control

- 8.14 Obtaining control of an entity usually provides the acquirer with a number of advantages including the following:
- access to potential synergies;
 - control over decision making and strategic direction;
 - access to underlying cash flows; and
 - control over dividend policies.
- 8.15 In the case of publicly traded securities, given the advantages control of an entity provides an acquirer, they are usually expected to pay a premium to the quoted market price to achieve control, which is often referred to as a control premium. A control premium is the amount or a percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise, to reflect the premium a buyer will pay to acquire control in a business enterprise. Consequently, earnings multiples for listed companies do not reflect the market value of a controlling interest in the company as they are derived from market prices which usually represent the buying and selling of non-controlling portfolio holdings (small parcels of shares).
- 8.16 RSM has undertaken a survey of control premiums paid over a 5-year period to 30 June 2016 in 463 successful takeovers and schemes of arrangements of companies listed on the ASX ("RSM Control Premium Study 2017"). The findings are summarised in the table below, showing the average control premiums paid 20, 5 and 2 days prior to announcement of a transaction, which are applied at the equity level.

	Number of transactions	20 days pre	5 days pre	2 days pre
Average control premium - all industries	463	34.5%	28.3%	26.4%

Source: RSM Control Premium Study 2017

Table 17: Control premium study

- 8.17 Based on the above, we consider that a control premium in the range of 30% to 35% is appropriate in assessing the value of a Funtastic share on a controlling basis.

Valuation Summary (Prior to the Proposed Transactions)

8.18 The table below sets out our assessment of the value of a Funtastic share on a controlling basis utilising the quoted price of listed securities methodology.

	Ref	Low	High	Preferred
Quoted market price (non-controlling basis)	8.12	\$0.022	\$0.024	\$0.023
Control premium	8.17	30.0%	35.0%	32.5%
Value of a Funtastic share (controlling basis)		\$0.029	\$0.032	\$0.030

Source: RSM analysis

Table 18: Assessed Fair Value of a Funtastic share – Quoted Price of Listed Securities

- 8.19 For the reasons set out in paragraphs 8.9 to 8.11, we do not consider the net assets on a going concern basis to be reflective of the Fair Value of a Funtastic share and accordingly, we have not adopted this methodology.
- 8.20 Therefore, in our opinion, the Fair Value of a Funtastic share prior to the Proposed Transactions on a controlling basis, is in the range of \$0.029 to \$0.032, with a preferred value of \$0.030.
- 8.21 As set out in paragraph 3.22, 454,545 Shares are to be issued to Mr Abbey (unrelated to the Proposed Transactions and not subject to shareholder approval). We do not consider the Fair Value of the Company prior to the Proposed Transaction to be impacted by the issue of these shares to Mr Abbey as we have used the quoted market price as our valuation methodology.

9. Valuation of Funtastic immediately after the Proposed Transactions

- 9.1 We have assessed the Fair Value of Funtastic immediately after the Proposed Transactions utilising a sum of the parts methodology.

Fair Value of Funtastic immediately after the Proposed Transactions

- 9.2 We have assessed the Fair Value of the existing Funtastic operations based on the quoted market price determined at paragraph 8.20 and Table 18 as set out in the table below.

	Low \$'000	High \$'000	Preferred \$'000
Quoted market price (controlling basis)	\$0.029	\$0.032	\$0.030
Number of Funtastic shares on issue prior to the Proposed Transactions plus shares to be issued to Mr Abbey	240,858,620	240,858,620	240,858,620
Equity Value of Funtastic (100% interest) (\$'000)	6,985	7,707	7,226

Source: RSM analysis

Table 19: Valuation of Funtastic prior to the Proposed Transactions

- 9.3 We have included the 454,545 shares to be issued to Mr Abbey in our assessment of the Fair Value of the existing Funtastic Operations as set out above.

Fair Value of HWG

- 9.4 We have assessed the Fair Value of HWG on a controlling basis using the Capitalisation of FME methodology.
- 9.5 The table below sets out our assessment of the Fair Value of HWG on a 100% equity interest basis.

HWG Valuation summary	Ref	Low \$'000	High \$'000	Preferred \$'000
FME (assessed at the EBITDA level)	9.10	2,250	2,250	2,250
Assessed EBITDA multiple (including a control premium)	9.21	5.50	6.00	5.75
Enterprise Value (100% interest)		12,375	13,500	12,938
Less: net debt	9.27	(2,014)	(2,014)	(2,014)
Equity Value (100% interest)		10,361	11,486	10,924

Source: RSM analysis

Table 20: Assessed Fair Value of HWG (Capitalisation of FME methodology)

- 9.6 We have assessed the Equity Value of HWG to range from \$10.4m to \$11.5m, with a preferred value of \$10.9m.
- 9.7 We have considered and determined the following variables when assessing the Fair Value of HWG:
- future maintainable earnings;
 - appropriate capitalisation multiple;
 - comparable transaction multiples;

- current level of net cash/debt;
- working capital requirements;
- value of surplus assets; and
- appropriate premium for control.

Future maintainable earnings

9.8 We have adopted EBITDA as an appropriate measure of FME because multiples based on the EBITDA are less sensitive to different financing structures, depreciation and amortisation accounting policies and effective tax rates than multiples based on other earnings measures such as EBIT or NPAT. In our opinion, this approach allows a better comparison with earnings multiples of other companies.

9.9 In assessing HWG's FME, we have considered the following:

- the unaudited Hobby Warehouse Group's amalgamated unaudited financial performance for FY20 and YTD21;
- HWG companies' standalone unaudited financial performance for FY17, FY18, FY19 and FY20;
- our review of abnormal or non-recurring profit and loss items and other normalisation adjustments;
- our review of forecast financial information;
- the market conditions and outlook of the industry HWG operates in;
- the overall run rate of amalgamated monthly sales disclosed by HWG for FY20 and YTD21, which increased from circa \$2m per month for FY19 and the first half of FY20, to just under \$3m per month for the final quarter of FY20 and YTD21;
- the overall increase in EBITDA margins from circa 2% for FY20 to circa 5% for FY21, relatively consistent with forecast EBITDA margin for FY21; and
- our discussions with Management.

9.10 On the above basis, we have adopted a future maintainable EBITDA for HWG of \$2.25m. As set out in paragraph 7.21, we have not considered the Placement in our assessment of fairness. Therefore, our assessment of FME excludes any forecast earnings attributable to HWG's plans to launch physical stores for Toys "R" Us and Babies "R" Us and wholesale sales of products that are proposed to be funded by the Placement.

Capitalisation multiple

9.11 In selecting an appropriate EBITDA multiple to value HWG, we have considered the EBITDA multiples of publicly listed comparable companies whose operations are sufficiently comparable to HWG.

9.12 The table below summarises the historical and forecast EBITDA multiples of publicly listed companies. A brief description of each of the companies is set out in Appendix D. In the absence of listed comparable companies with sales directly comparable to HWG, we have considered companies in online specialty retail industries, and consumer discretionary distributors.

									Ratios	
									Historical EV	Forecast EV
HWG		Net Assets	Turnover	Historical EBITDA	Forecast EBITDA	Market Cap.	Net Debt	Enterprise Value	EBITDA (times)	EBITDA (times)
Comparable companies	Country	\$m	\$m	\$m	\$m	\$m	\$m	\$m		
Australian online retail companies										
JB Hi-Fi Limited	Australia	1,106	7,919	537	727	5,404	490	5,894	11.0	8.1
Kogan.com Ltd*	Australia	164	498	46	79	2,345	(144)	2,201	48.1	27.9
Baby Bunting Group Limited	Australia	93	405	35	48	621	93	714	20.1	14.8
Temple & Webster Group Ltd*	Australia	30	176	8	22	1,472	(37)	1,435	185.0	66.5
Harris Technology Group Limited*	Australia	(4)	14	1	-	31	5	35	28.7	NA
Jumbo Interactive Limited	Australia	79	71	37	47	739	(67)	672	18.0	14.4
Other online retail and consumer discretionary distributors										
Qurate Retail, Inc.	United States	7,656	19,704	2,693	2,807	4,235	8,246	12,481	4.6	4.4
N Brown Group plc	United Kingdom	624	1,169	160	140	274	991	1,264	7.9	9.0
Studio Retail Group plc	United Kingdom	153	880	114	102	367	593	960	8.4	9.4
PetMed Express, Inc.	United States	192	435	53	53	876	(126)	750	14.1	14.2
Hamee Corp.	Japan	66	151	30	31	497	(20)	476	15.8	15.5
Happinet Corporation	Japan	512	3,192	44	-	413	(187)	226	5.2	NA
Rama Vision Limited	India	-	8	0	-	1	1	2	6.7	NA
Average									28.7	18.4
Median									14.1	14.3
Min									4.6	4.4
Max									185.0	66.5
Average (excluding outliers)									11.2	11.2
Median (excluding outliers)									9.7	11.8
Min (excluding outliers)									4.6	4.4
Max (excluding outliers)									20.1	15.5

Source: Capital IQ

* Excluded from both historical and forecast multiples

Table 21: HWG summary of comparable company EBITDA multiples

9.13 In relation to the trading multiples above, we note that share prices of listed companies represent the market value of a non-controlling interest in those companies. As such, any earnings multiple derived from those share prices are consequently non-controlling multiples and do not reflect a premium for control.

9.14 Based on our analysis, having particular regard to the average and median forecast EBITDA multiple (excluding outliers) of 11.2 and 11.8 times, we consider the appropriate non-controlling comparable EBITDA multiple is 11.0 times.

Control premium

9.15 Earnings multiples of listed companies do not reflect the market value of a controlling interest in the company as they are derived from market prices which usually represent the buying and selling of non-controlling portfolio holdings (small parcels of shares).

9.16 Premiums for control are considered to range from 25% to 35%² which are applied at the equity value level.

9.17 On the above basis we have adopted a control premium of 20% to 25% for HWG at the Enterprise Value level.

² RSM Control Premium Study 2017

Discount for size and business risk

9.18 In calculating the appropriate EBITDA multiple for HWG, we considered the following:

- HWG is significantly smaller than the publicly listed comparable companies with respect to revenue and EBITDA; and
- as a smaller business, HWG inherently carries greater risk as it has less diversified revenue streams, less geographic diversifications, lack economies of scale, relatively less efficient processes and systems, and limited access to debt and equity markets.

9.19 On the above basis, we have assessed HWG's discount for size and other business risk factors to be in the range of 55% to 60%.

9.20 The table below sets out our assessment of HWG's EBITDA multiple.

HWG Assessed EBITDA Multiple	Low	High	Preferred
Assessed EBITDA of comparable companies	11.00	11.00	11.00
Control premium	20.0%	25.0%	22.5%
EBITDA of comparable companies (controlling basis)	13.20	13.75	13.48
Discount for size and business risk factors	(60.0%)	(55.0%)	(57.5%)
Assessed EBITDA multiple	5.28	6.19	5.73
Say	5.50	6.00	5.75

Source: Capital IQ and RSM analysis

Table 22: HWG assessed EBITDA multiple (controlling basis)

9.21 On the above basis, we have determined the valuation multiple of HWG to be in the range of 5.50 to 6.00 times, with a preferred multiple of 5.75 times FME.

Comparable transactions

9.22 To cross-check our valuation of HWG using the EBITDA multiples of publicly listed comparable companies, we have considered the implied EBITDA multiples of recent transactions involving companies whose operations and activities are comparable to the HWG.

9.23 All of these transactions involved the acquisition of a majority stake and are therefore reflective of an appropriate multiple inclusive of a control premium.

9.24 The table below summarises the EBITDA multiples of recent comparable transactions.

Completion date	Target/ Issuer	Buyer/Investor	Description of Target	Country	Total transaction value (A\$'m)	Acquisition stake	Implied EV/EBITDA x
01-Sep-20	Total Tools Importing Pty Ltd	Metcash Limited	Total Tools Importing Pty Ltd distributes and retails industrial and trade tools through retail stores and through its online platform.	Australia	57	Majority	6.5
06-Aug-19	Barnes & Noble, Inc.	Elliott Management Corporation; Elliott Associates, L.P.; Elliott International, L.P.	Barnes & Noble, Inc., a retail bookseller, sells content, digital media, and educational products in the United States.	United States	990	Majority	6.1
09-May-19	Hamleys of London Limited	Reliance Brands Limited	Hamleys of London Limited together with its subsidiaries retails toys under the brand name Hamleys. It provides toys, such as soft toys, dolls, art and crafts, preschool toys, action toys, bubble and water toys, construction toys, children games, and family games. The company also sells products through its online platform.	United Kingdom	127	Majority	13.6
02-Sep-16	Home Retail Group Limited	J Sainsbury plc	Home Retail Group plc operates as a home and general merchandise retailer in the United Kingdom and Republic of Ireland.	United Kingdom	2,194	Majority	3.8
05-Aug-19	Ocado Retail Limited	Marks and Spencer Group plc	Ocado Retail Limited operates an online supermarket in the United Kingdom.	United Kingdom	1,424	Majority	15.7
25-Sep-19	Shutterfly, Inc.	Apollo Global Management, LLC (nka:Apollo Global Management, Inc.)	Shutterfly, Inc. manufactures and retails personalised products primarily in the United States, Canada, and the European Community.	United States	4,209	Majority	10.0
26-Jul-19	Liberty Expedia Holdings, Inc.	Expedia Group, Inc.	Liberty Expedia Holdings, Inc. was acquired by Lems I LLC. Liberty Expedia Holdings, Inc. Liberty Expedia Holdings, Inc. operates as an online travel company in the United States and internationally.	United States	31,276	Majority	10.6
17-Dec-18	Mobile Phones Direct Limited	AO Limited	Mobile Phones Direct Limited operates as an online retailer of mobile phones in United Kingdom.	United Kingdom	69	Majority	7.0
Average							9.2
Median							8.5
Min							3.8
Max							15.7

Source: Capital IQ and RSM analysis

Table 23: HWG comparable transaction multiples (controlling basis)

9.25 Consistent with the listed comparable companies considered, in the absence of recent comparable transactions for companies with sales directly comparable to HWG, we have considered the transacted multiples of target companies in online and specialty retail industries.

9.26 We consider the smaller transactions by total transaction value for Total Tools Importing Pty Ltd, Barnes & Noble, Inc. and Mobile Phones Direct Limited of 6.5, 6.1 and 7.0 times EBITDA , respectively, to be relatively supportive of our assessed forecast EBITDA multiple (including a control premium) of 5.50 to 6.00 times, having regard both to the larger size of the transaction values relative to the Proposed Transactions. Further, we note that the timing of the Barnes & Noble and Mobile Phones Direct transactions which occurred pre the global economic uncertainty arising from the COVID-19 pandemic.

Net debt

9.27 As set out in paragraph 6.48, as at 31 August 2020, HWG disclosed net debt of \$2.0m (calculated as cash and cash equivalents plus unpaid present entitlements receivable, less borrowings). Net debt disclosed by HWG will form part of the Proposed Transactions.

9.28 Accordingly, we have deducted net debt from the Enterprise Value of HWG in our assessment of the Fair Value of a 100% equity interest in HWG.

Surplus assets

- 9.29 Based on our review of the unaudited financial statements of HWG, we consider that there were no assets surplus to HWG's operations.

Valuation of Funtastic immediately after the Proposed Transactions (controlling basis)

- 9.30 We have assessed the value of Funtastic immediately after the Proposed Transactions as set out in the table below.

	Ref	Low \$'000	High \$'000	Preferred \$'000
Assessed Equity Value of Funtastic	Table 19	6,985	7,707	7,226
Assessed Equity Value of the HWG	Table 20	10,361	11,486	10,924
Less dilutionary impact of Options	9.31	(343)	(343)	(343)
Total Equity Value of Merged Group		17,003	18,850	17,806
Total number of shares in Funtastic immediately after the Proposed Transactions ('000)	Table 2	586,859	586,859	586,859
Assessed value per share (controlling basis)		\$0.029	\$0.032	\$0.030

Source: RSM analysis

Table 24: Assessed value per share in Funtastic immediately after the Proposed Transactions (controlling basis)

- 9.31 As set out in section 3, the Proposed Transactions include the issue of Options to both Mr Mittoni and Mr Moore under Resolutions 12 and 13. We have adjusted for the potential dilutionary impact of the Options in our assessment of the value of a Funtastic share immediately post the Proposed Transactions. Further detail on assumptions and inputs we have used to value the potential dilutionary impact of the Options to be issued under Resolutions 12 and 13 are set out in Appendix E.
- 9.32 We consider the value of a Funtastic share (on a controlling basis), immediately after the Proposed Transactions to be in the range of \$0.029 to \$0.032, with a preferred value of \$0.030.

Valuation of Funtastic immediately after the Proposed Transactions (non-controlling basis)

Minority interest discount

- 9.33 The table below sets out our assessment of the Fair Value of a Funtastic share immediately after the Proposed Transactions on a non-controlling basis.

	Ref	Low \$'000	High \$'000	Preferred \$'000
Fair Value per share (controlling interest)	Table 24	\$0.029	\$0.032	\$0.030
Discount for non-controlling interest	9.35	(25.9%)	(23.1%)	(24.5%)
Fair Value per share immediately after the Proposed Transactions (non-controlling interest)		\$0.021	\$0.025	\$0.023

Source: RSM analysis

Table 25: Assessed Fair Value per Funtastic share immediately after the Proposed Transactions (non-controlling basis)

- 9.34 A discount to reflect a non-controlling interest in an entity (minority interest) is the inverse of a control premium.

- 9.35 As per paragraph 8.17, we have determined a control premium of 30% to 35% to be appropriate for Funtastic, the inverse of which has been presented in Table 25 above.
- 9.36 As set out above, we have assessed the Fair Value of a Funtastic share (on a non-controlling basis), to be in the range of \$0.021 to \$0.025, with a preferred value of \$0.023.

10. Are the Proposed Transactions Fair?

- 10.1 In assessing whether we consider the Proposed Transactions to be fair to Non-Associated Shareholders, we have valued a share in Funtastic prior to and immediately after the Proposed Transactions to determine whether a Non-Associated Shareholder would be better or worse off should the Proposed Transactions be approved. Our assessed values are summarised in the table below.

	Ref	Low	High	Preferred
Fair Value per share prior to the Proposed Transactions (controlling basis)	Table 18	\$0.029	\$0.032	\$0.030
Fair Value per share immediately after the Proposed Transactions (non-controlling basis)	Table 25	\$0.021	\$0.025	\$0.023

Source: RSM analysis

Table 26: Valuation Summary

- 10.2 The above comparison is depicted graphically in the chart below.

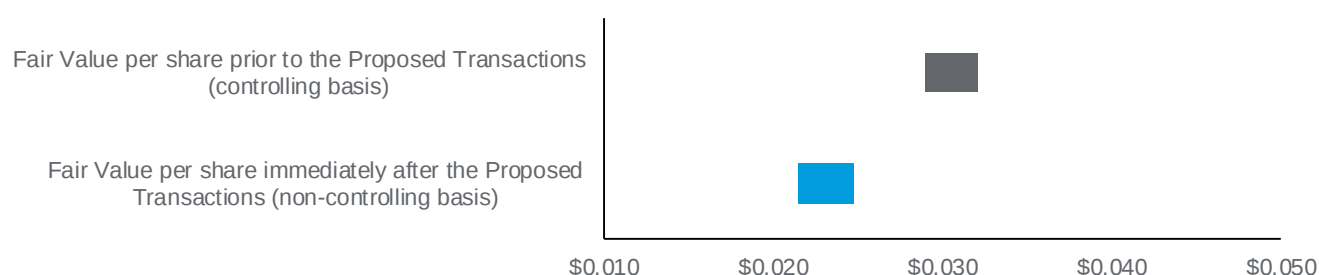


Chart 3: Valuation summary graphical representation

- 10.3 In our opinion, as the Fair Value of a Funtastic share (on a non-controlling basis) immediately after the Proposed Transactions, is less than the Fair Value of a Funtastic share (on a controlling basis) prior to the Proposed Transactions, we consider the Proposed Transactions are **not fair** to the Non-Associated Shareholders of Funtastic.

11. Are the Proposed Transactions Reasonable?

11.1 RG 111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the offer closes. As such, we have also considered the following factors in relation to the reasonableness aspects of the Proposed Transactions:

- the future prospects of Funtastic if the Proposed Transactions do not proceed;
- the trading of Funtastic shares following the announcement of a Potential Transaction;
- other commercial advantages and disadvantages to Non-Associated Shareholders as a consequence of the Proposed Transactions proceeding; and
- alternative proposals to the Proposed Transactions.

Future prospects of Funtastic if the Proposed Transactions do not proceed

11.2 Funtastic has disclosed significant declines in revenue over recent years, from circa \$56m in FY17 to circa \$25m for FY20. The last four financial years have resulted in significant operating losses in each year with positive reported EBITDA results in FY18 and FY19 resulting from one-off gains, being debt forgiveness from the Company's then lender, the NAB.

11.3 Following alternatives to reduce operating costs have been considered but have been determined to not be feasible in the long term:

- reduction of overheads – the Company has continually reduced overheads as revenues declined but has been unable to reduce overheads sufficiently at the date of this Report to enable the business to return to profit;
- corporate restructure – during FY20, the Company has restructured and exited non-profitable product lines. The Directors consider that any further restructuring would result in the Company being unable to operate effectively. The Company has and continues to rely on continuing funding from Jaszac to fund operations;
- alternate funding – following the debt write offs agreed by the NAB, Funtastic has been unable to secure further finance facilities other than a debt finance facility with Scottish Pacific secured by the Company's debtors. The Scottish Pacific funding has not been sufficient to fund the cashflow needs of the business and the Company has been supported by a \$12m loan agreement with Jaszac with an interest rate of 12% per annum. This loan plus accrued interest is repayable on 31 December 2023 unless terms are extended or the existing loan is partially converted to equity, with the remainder repaid from the proceeds of the Placement in accordance with Resolution 10; and
- capital markets funding on a standalone basis – Funtastic undertook a share purchase plan in December 2019 to raise further funds from shareholders, but this was not well supported and only raised approximately \$130k.

11.4 If the Proposed Transactions are not approved, the Directors consider that the Company's current funding will be insufficient to support the business beyond FY21. As such the Directors consider the future prospects for Funtastic would be limited to the following options:

- discuss the willingness and ability of the Company's largest shareholder, Jaszac to provide increased funding beyond the current agreement. However, the ability to secure this funding is not considered to be likely;

- Funtastic could pursue alternative transactions to either acquire a new business or be acquired by another business. At the date of this Report, the Directors consider that no such appropriate alternative transaction has been identified and future likelihood of finding an appropriate transaction is considered low; and
- if Jaszac did not continue to support the existing Secured Loan Agreement or agree to make further funding available, the Directors consider that there would be no alternative than to enter into voluntary administration.

11.5 The audited financial statements for FY20 included an emphasis of matter in the independent auditor's report issued by Grant Thornton that stated that a material uncertainty existed that may cast significant doubt on the Company's ability to continue as a going concern. Whilst the auditor's opinion was not modified in respect of this matter, the auditor drew attention to the disclosure in note 1 of the financial statements that Funtastic's ability to continue as a going concern was dependent upon factors such as sustaining improved financial results, executing the strategic plan to restructure operations and continuing to receive support from creditors, customers, Scottish Pacific and Jaszac.

Response of the Market to the Announcement of a Potential Transaction

11.6 The table below sets out the Company's VWAP of shares traded from 25 August 2020, the date Funtastic announced that it was in early stage discussions regarding a Potential Transaction, to 30 September 2020 (the last day shares were traded at the date of this Report).

	Share price Low \$	Share price High \$	No. of days traded	Volume traded	Value traded \$	VWAP \$	Percentage of issued capital %
<i>Calendar days prior to 25 August 2020</i>							
5 days	0.030	0.050	3	1,069,690	40,486	0.038	0.44%
10 days	0.026	0.050	4	1,070,630	40,512	0.038	0.45%
30 days	0.022	0.050	9	1,205,990	43,692	0.036	0.50%
60 days	0.020	0.050	23	1,872,930	57,949	0.031	0.78%
<i>Calendar days from 25 August 2020</i>							
37 days	0.040	0.065	25	8,476,840	446,168	0.053	3.53%

Source: Capital IQ and RSM analysis

Table 27: Funtastic VWAP after the announcement of a Potential Transaction

- 11.7 The volume of shares traded increased post the announcement of a Potential Transaction, with 3.53% of issued capital having been traded since 25 August 2020.
- 11.8 Funtastic's VWAP of \$0.053 post the announcement of a Potential Transaction is an increase on the 5, 10, 30 and 60-day VWAP ranging from \$0.031 to \$0.038.
- 11.9 Notwithstanding the relatively low liquidity of the Company's shares, we consider that the market has reacted favourably to the announcement of a Potential Transaction.

Advantages of approving the Proposed Transactions

11.10 The advantages of approving the Proposed Transactions are:

- the acquisition of HWG is consistent with the Company's current strategy of implementing a change in business model. Whilst Funtastic has operated for over 20 years as a distributor of family focused lifestyle products, opportunities for distribution are decreasing and realised margins are decreasing. This is due primarily to retailers increasingly moving towards a direct sourcing model and major producers of lifestyle products increasingly distributing their own products within Australia. For these reasons, Funtastic has been focused on growing its direct to consumer sales through online channels, consistent with HWG's current operations. The Funtastic Board of Directors are also in the process of moving towards a strategy of the Company owning its own products or own the IP of products rather than distributing similar products that compete with retailers also implementing a direct sourcing model;
- the Directors consider HWG's operations to be well-positioned for growth due to the strategy of targeting consumers from "cradle to grave" via HWG's TRU License Agreement to sell Toys "R" Us and Babies "R" Us brands in Australia and New Zealand, as well as HWPL's niche hobby products online business;
- the Directors consider that the Proposed Transactions represent an opportunity to expand the Company's online direct to consumer capabilities through the acquisition of two brands with significant brand equity and consumer awareness, and leverage Funtastic's core strengths in successfully sourcing, marketing and distributing branded lifestyle products to drive revenue and margin growth;
- there are expected to be significant synergies including reduced supply chain costs and reductions in combined overheads;
- the Proposed Transactions are contingent upon a Placement to support the Company's expansion plans in line with HWG's business plan to generate profits by successfully marketing and selling products under the Toys "R" Us and Babies "R" Us brands by implementing a comprehensive direct-to-consumer marketing and media strategy. HWG also hopes to implement a lower cost overhead model by investing in warehouse robotics and Artificial Intelligence to promote cost efficiencies. If the Placement is successful and the expansion plan is successfully implemented, Shareholders would benefit from the upside of profitable operations;
- if successful, the Placement will provide working capital to support the growth strategy and reduce the current debt within Funtastic, while providing greater certainty over the future of the Company to staff, suppliers, customers and retail partners; and
- there may be possible improvement in the liquidity of Funtastic shares if the Proposed Transactions create increased interest in the Company and hence a more efficient market for shareholders to dispose of their shareholdings.

Effect of the Placement

11.11 The table below sets out a pro-forma summary of the Fair Value of a Funtastic share in the event the Placement is successful.

	Ref	Low \$'000	High \$'000	Preferred \$'000
Assessed Equity Value of Funtastic	Table 19	6,985	7,707	7,226
Assessed Equity Value of the HWG	Table 20	10,361	11,486	10,924
Less dilutionary impact of Options	9.31	(343)	(343)	(343)
Cash raised from Placement	3.3	29,000	29,000	29,000
Less costs of capital raising	11.12	(2,000)	(2,000)	(2,000)
Pro-forma total Equity Value of Merged Group		44,003	45,850	44,806
Total number of shares in Funtastic immediately after the Proposed Transactions, including the Placement ('000)	Table 3	845,788	845,788	845,788
Assessed pro-forma value per share (controlling basis)		\$0.052	\$0.054	\$0.053
Discount for non-controlling interest	9.35	(25.9%)	(23.1%)	(24.5%)
Assessed pro-forma Fair Value per share (non-controlling basis)		\$0.039	\$0.042	\$0.040

Source: RSM analysis

Table 28: Pro-forma Fair Value of a Funtastic Share immediately post Placement

- 11.12 In the event the Proposed Transactions are approved, the Company will undertake a Placement to raise \$29m. Management has assessed capital raising costs to be approximately \$2m.
- 11.13 As set out in Table 3, the total number of ordinary shares in the Company would increase to 845,787,530 in the event the proposed Placement is approved, and a capital raising of \$29m at 11.2 cents per share is achieved.
- 11.14 The pro-forma Fair Value per share of Funtastic immediately after the Proposed Transactions and assuming the Placement is successful is the value of a share on a non-controlling basis.

Disadvantages of approving the Proposed Transactions

- 11.15 The disadvantages of the Proposed Transactions are:
- the Proposed Transactions are not fair;
 - the dilution of Non-Associated Shareholders' interests from 80.39% to 22.85% assuming a \$29m capital raising under the Placement;
 - in the event the share price exceeds the Option exercise price specified at paragraphs 3.7 and 3.8, Non-Associated Shareholders' interests would be further diluted if the Options issued under Resolutions 12 and 13 are exercised;
 - the dilution of Non-Associated Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals;
 - the costs of the Proposed Transactions are expected to be approximately \$2.0m, a significant proportion of the estimated Placement of \$29.0m;

- the completion of the Proposed Transactions is contingent upon the Company's ability to complete the Placement. The Company will incur costs irrespective of whether or not a Placement under Resolution 9 is successfully completed;
- HWG is reliant on the continued involvement of Mr Mittoni in the business;
- sales of HWG are reliant on the maintenance of the TRU License Agreement; and
- in connection with the Proposed Transactions, a number of changes to the TRU License Agreement have been agreed with TRUK, which will be effective from the completion of the Proposed Transactions. The agreed changes to the TRU License Agreement under the Amended License Agreement, place additional obligations on the licensee (being TRUL), and also include the right of termination by either party by giving 18 months' notice prior to the expiration of the initial term or the first renewal term (as defined in the Amended License Agreement).

Alternative proposals

- 11.16 We are not aware of any alternative proposal at the current time which might offer Non-Associated Shareholders a greater benefit than the Proposed Transactions.

Conclusion on Reasonableness

- 11.17 In our opinion, and in the absence of any other relevant information and/or a superior offer, for the purposes of section 611, item 7 of the Corporations Act and Listing Rule 10.1, we consider that the Proposed Transactions are **reasonable** for Non-Associated Shareholders.
- 11.18 An individual Shareholder's decision in relation to the Proposed Transactions may be influenced by his or her individual circumstances. If in doubt, Shareholders should consult an independent advisor.

Yours faithfully

RSM CORPORATE AUSTRALIA PTY LTD

G YATES



Director

A CLIFFORD



Director



APPENDICES

A. DECLARATIONS AND DISCLAIMERS

Declarations and Disclosures

RSM Corporate Australia Pty Ltd holds Australian Financial Services Licence 255847 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

Qualifications

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board.

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia Pty Ltd (RSM) a large national firm of chartered accountants and business advisors.

Mr Glyn Yates and Mr Andrew Clifford are directors of RSM Corporate Australia Pty Ltd. Both Mr Yates and Mr Clifford are Chartered Accountants with extensive experience in the field of corporate valuations and the provision of independent expert's reports for transactions involving publicly listed and unlisted companies in Australia.

Reliance on this Report

This report has been prepared solely for the purpose of assisting Shareholders of the Company in considering the Proposed Transactions. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose.

Reliance on Information

Statements and opinions contained in this report are given in good faith. In the preparation of this report, we have relied upon information provided by the Directors and Management of Funtastic Limited and we have no reason to believe that this information was inaccurate, misleading or incomplete. RSM Corporate Australia Pty Ltd does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

The opinion of RSM Corporate Australia Pty Ltd is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

In addition, we have considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

We assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information supplied to us.

Disclosure of Interest

At the date of this report, none of RSM Corporate Australia Pty Ltd, RSM, Glyn Yates, Andrew Clifford, nor any other member, director, partner or employee of RSM Corporate Australia Pty Ltd and RSM has any interest in the outcome of the Proposed Transactions, except that RSM Corporate Australia Pty Ltd are expected to receive a fee of approximately \$35,000, excluding GST, based on time occupied at normal professional rates for the preparation of this report. The fees are payable regardless of whether Funtastic Limited receives Shareholder approval for the Proposed Transactions, or otherwise.

Consents

RSM Corporate Australia Pty Ltd consents to the inclusion of this report in the form and context in which it is included with the Notice of Annual General Meeting and Explanatory Notes to be issued to Shareholders. Other than this report, none of RSM Corporate Australia Pty Ltd or RSM Australia Pty Ltd or has been involved in the preparation of the Notice of Annual General Meeting and Explanatory Notes. Accordingly, we take no responsibility for the content of the Notice of Annual General Meeting and Explanatory Notes.

B. SOURCES OF INFORMATION

In preparing this Report we have relied upon the following principal sources of information:

- Drafts and final copies of the Notice of Meeting;
- Drafts and final copies of the Share Sale Deed (SSD) between Funtastic Limited and Louis Mittoni, Gina Georgousis, Mittoni Holdings Pty as trustee for Mittoni Family Trust, and Hobby Warehouse Holdings Pty Ltd as trustee for Hobby Warehouse Trust;
- Drafts and final copies of the loan conversion and repayment agreement between Funtastic Limited and Jaszac Investments Pty Ltd;
- Audited financial statements for Funtastic for the four years ended 31 July 2020;
- Share register of Funtastic as at 27 September 2020;
- Unaudited financial statements of Mittoni Pty Ltd and Hobby Warehouse Pty Ltd for the four years ended 30 June 2020;
- Unaudited financial statements of Toys R Us Licensee Pty Ltd for the period ended 30 June 2019 and the year ended 30 June 2020;
- ASX announcements of Funtastic;
- S&P Capital IQ database;
- IBISWorld; and
- Discussions with Directors and Management.

C. GLOSSARY OF TERMS AND ABBREVIATIONS

Term or Abbreviation	Definition
\$ or A\$	Australian dollar
AFCA	Australian Financial Complaints Authority
Amended License Agreement	The Trademark License Agreement (TRU License Agreement) initially entered into by TRUK, HWPL and TRUL dated 30 May 2019, as amended by the document titled Amendment No. 1 to License Agreement entered into by TRUK, TRUL and HWPL dated 20 May 2019, and subsequently, as amended by the document titled Amendment No.2 To License Agreement entered into by TRUK, TRUL, HWPL and Funtastic
APES	Accounting Professional & Ethical Standards Board
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ASX Listing Rules	The listing rules of the ASX as amended from time to time
Company or Funtastic	Funtastic Limited
Control or controlling basis	As assessment of the Fair Value on an equity interest, which assumes the holder or holders have control of the entity in which the equity is held
Control premium	An amount or percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise, to reflect the power of control
Corporations Act of the Act	Corporations Act 2001 (Cth)
Discounted cash flow (DCF)	A method within the income approach which values a business as the present value of future expected cash flows and is calculated using a discount rate
Directors	Directors of the Company
EBITDA	Earnings before interest, tax, depreciation and amortisation
Enterprise Value	Enterprise Value of a business on a cash free basis, debt free basis
Equity Value	The owners' interest in a company after deduction of all liabilities
Fair Value or Market Value	The amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer, both acting at arm's length
Future maintainable earnings (FME)	The normal maintainable earnings expected to be achieved in the future
FSG	Financial Services Guide
FYXX	Financial year ended 31 July 20XX or Financial year ended 30 June 20XX, as applicable
Going concern	An ongoing operating business enterprise
HWG or Hobby Warehouse Group	Collectively, Mittoni Pty Ltd, Hobby Warehouse Pty Ltd and Toys R Us Licensee Pty Ltd
HWPL or HWL	Hobby Warehouse Pty Ltd
IER or Report	This Independent Expert Report
Jaszac	Jaszac Investments Pty Ltd
k	Thousands

Term or Abbreviation	Definition
m	Millions
Management	The management of Funtastic Limited
Merged Group	The assessed Fair Value of Funtastic immediately following the Proposed Transactions, comprising the combined values of Funtastic and HWG
Minority interest (non-controlling interest)	A non-controlling ownership interest, generally less than 50% of a company's voting shares
MPL	Mittoni Pty Ltd
Notice	The Notice of Annual General Meeting and Explanatory Notes accompanying this IER
Placement	Resolution 10 as set out in the Notice, comprising a placement to professional and sophisticated investors at 11.2 cents per share to raise \$29m
Proposed Transactions	Resolutions 8, 9, 10, 11, 12 and 13 as set out in the Notice. Resolutions 8, 9, 10, 11, 12 and 13 are also defined as the Transaction Resolutions and are inter-dependent
RG 111	ASIC Regulatory Guide 111 – Content of expert reports
RG 112	ASIC Regulatory Guide 112 – Independence of experts
RSM	RSM Corporate Australia Pty Ltd
S&P Capital IQ or Capital IQ	An entity of Standard and Poor's which is a third-party provider of company and other financial information
Sellers	Collectively, Mr Louis Mittoni, Ms Gina Georgousis, Mittoni Holdings Pty Ltd (as trustee for Mittoni Family Trust) and Hobby Warehouse Holdings Pty Ltd (as trustee for the Hobby Warehouse Trust)
Share	Ordinary fully paid share in the capital of the Company
Shareholders or Non-Associated Shareholders	Funtastic shareholders who are not excluded from voting on Resolutions 8, 9, 10, 11, 12 and 13 as set out in the Notice
SSD or Share Sale Deed	The Share Sale Deed between Funtastic and the Sellers as defined in the Notice
TRUK	TRU Kids, Inc., New Jersey
TRU License Agreement	The Trademark License Agreement entered into by TRUK, TRUL and HWPL dated 30 May 2019 as amended by the document titled Amendment No. 1 to License Agreement entered into by TRUK, TRUL and HWPL dated 20 May 2020. The TRU License Agreement comprises an exclusive 30-year license agreement with the Intellectual Property (IP) owners of Toys "R" Us and Babies "R" Us, entered into between HWPL, TRUL and TRUK. The TRU License Agreement provides exclusive rights to market and sell toys under the Toys "R" Us and Babies "R" Us brands.
TRUL	Toys R Us Licensee Pty Ltd
VWAP	Volume weighted average share price
YTD21	2-month period ended 31 August 2020

D. COMPARABLE COMPANIES' DESCRIPTIONS

HWG	
Comparable Company	Description
JB Hi-Fi Limited	JB Hi-Fi Limited, together with its subsidiaries, retails home consumer products. It operates through three segments: JB Hi-Fi Australia, JB Hi-Fi New Zealand, and The Good Guys. The company offers consumer electronics products and services, including televisions, audio equipment, computers, and cameras; telecommunications products and services; software products, such as music, movies, and games; musical instruments; and home appliances comprising whitegoods, cooking products, heating and cooling products, small appliances, and kitchen accessories. It also provides information technology and consulting services. As of June 30, 2020, the company sold its products through branded retail store network comprising 195 JB Hi-Fi/JB Hi-Fi Home stores in Australia; 14 JB Hi-Fi stores in New Zealand; and 105 The Good Guys stores in Australia, as well as online. JB Hi-Fi Limited was founded in 1974 and is based in Southbank, Australia.
Kogan.com Ltd	Kogan.com Ltd operates as an online retailer in Australia. The company offers various brands across a range of categories, including consumer electronics, appliances, homewares, hardware, toys, and others; and owns and operates 20 private label brands. It also provides pre-paid mobile phone plans online; directly sourced holiday packages and travel bookings; and hotel bookings through hotels.kogan.com, as well as cruises through cruises.kogan.com. In addition, the company offers general insurances, including home, contents, landlord, car, and travel insurances, as well as pet, life, health, and pet insurance; NBN internet plans; and home loans. Further, it provides superannuation funds, credit cards, telecommunications services, and power and gas services, as well as trade-in cars. The company provides its products under the company's brands, such as Kogan, Ovela, Fortis, Vostok, and Komodo, as well as products sourced from imported and domestic third party brands comprising Apple, Canon, Swann, and Samsung. The company was founded in 2006 and is headquartered in Melbourne, Australia.
Baby Bunting Group Limited	Baby Bunting Group Limited operates as specialty retailer of baby goods in Australia. The company's principal product categories include prams, cots and nursery furniture, car safety, toys, babywear, feeding, nappies, and Manchester and associated accessories. Its products primarily cater to parents with children from newborn to three years of age, and parents-to-be. The company operates a network of 53 stores, as well as sells products through babybunting.com.au, an online store. Baby Bunting Group Limited was founded in 1979 and is based in Dandenong South, Australia.
Temple & Webster Group Ltd	Temple & Webster Group Ltd engages in the online retail of furniture, homewares, and other lifestyle products in Australia. The company operates an open e-commerce platform that offers approximately 180,000 products, including rugs, bar stools, coffee tables, and office furniture under the Temple & Webster brand. It also offers home, office, and outdoor furniture, as well as lighting and homeware products under the Milan Direct brand through its e-commerce platform for various distributors and trade clients on a wholesale basis. Temple & Webster Group Ltd was founded in 2011 and is headquartered in Sydney, Australia.
Harris Technology Group Limited	Harris Technology Group Limited engages in online retailing and technology distribution businesses in Australia. It engages in the online retail of IT products; and baby care products. The company was founded in 1986 and is headquartered in Hallam, Australia.
Jumbo Interactive Limited	Jumbo Interactive Limited retails lottery tickets through internet and mobile devices in Australia, the United Kingdom, Fiji, and internationally. It operates through Internet Lotteries Australia, Other, and Software-as-a-Service UK segments. The company is involved in the retail of national jackpot and charity lotteries through digital platforms; and online sale of payroll software systems, as well as provides turnkey digital solution to lotteries. It operates OzLotteries.com website that offers lottery tickets. Jumbo Interactive Limited was incorporated in 1986 and is headquartered in Toowong, Australia.
Qurate Retail, Inc.	Qurate Retail, Inc., through its subsidiaries, engages in the video and online commerce industries in North America, Europe, and Asia. The company markets and sells various consumer products primarily through television, programs, Websites, and mobile applications to approximately 380 million households worldwide. It also operates as an online retailer offering women's, children's, and men's apparel; and other products, such as home, and beauty products through its desktop and mobile Websites, and mobile applications under the name Zulily. The company was formerly known as Liberty Interactive Corporation and changed its name to Qurate Retail, Inc. in April 2018. Qurate Retail, Inc. was founded in 1991 and is headquartered in Englewood, Colorado.
N Brown Group plc	N Brown Group plc operates as a digital fashion retailer in the United Kingdom. The company offers a range of clothing, footwear, and homeware products for men, women, and kids under the JD Williams, Simply Be, Jacamo, Oxendales, Figleaves, House of Bath, High and Mighty, Fasion World, Premier Man, Slimma, Diva, Dannimac, and Ambrose Wilson brands. It also provides financial services. The company was founded in 1859 and is headquartered in Manchester, the United Kingdom.
Studio Retail Group plc	Studio Retail Group plc operates as a digital value retailer in the United Kingdom, Europe, Asia, and internationally. The company operates through two segments, Studio and Education. Its Studio segment engages in the sale of various products covering leisurewear, electrical, household, textile, bedding, furniture, nursery products, gifts, and greeting cards through a combination of direct marketing and online via the studio.co.uk and ace.co.uk Websites. The company's Education segment supplies school and early year's resources to primary, secondary, and nursery educational establishments. The company was formerly known as Findel plc and changed its name to Studio Retail Group plc in July 2019. Studio Retail Group plc was founded in 1955 and is headquartered in Accrington, the United Kingdom.

HWG	
Comparable Company	Description
PetMed Express, Inc.	PetMed Express, Inc., together with its subsidiaries, doing business as 1-800-PetMeds, operates as a pet pharmacy in the United States. The company markets prescription and non-prescription pet medications, and other health products for dogs, cats, and horses. It offers non-prescription medications and supplies, such as flea and tick control products, bone and joint care products, vitamins, treats, nutritional supplements, hygiene products, and supplies; and prescription medications, including heartworm preventative, flea and tick preventative, arthritis, dermatitis, thyroid, diabetes, pain medications, heart/blood pressure, and other specialty medications, as well as generic substitutes. The company also sells food, beds, crates, stairs, strollers, and other pet supplies. It sells its products through its Internet website; telephone contact center; and direct mail/print through brochures and postcards. PetMed Express, Inc. was founded in 1996 and is headquartered in Delray Beach, Florida.
Hamee Corp.	Hamee Corp. engages in the e-commerce and platform businesses in Japan and internationally. It engages in the planning and wholesale of mobile goods and smartphone accessories; and development and provision of Next Engine, a cloud-type business management platform for Internet mail order business operators. It is also involved in the investment business. The company was formerly known as Macrowill Company. Hamee Corp. was founded in 1997 and is headquartered in Odawara, Japan.
Happinet Corporation	Happinet Corporation operates as an entertainment trading company in Japan. The company sells arcade game equipment and operates toy vending machines. It also manufactures and sells toys, trading cards, playthings, and other toys, as well as video game related merchandise; and develops, produces, and sells audio-visual software, as well as sells music software, video game software and hardware, and related peripheral equipment. The company was formerly known as Toshio Corporation and changed its name to Happinet Corporation in October 1991. Happinet Corporation was founded in 1969 and is headquartered in Tokyo, Japan.
Rama Vision Limited	Rama Vision Limited engages in the trading of mother and baby care, skin care, food, and other products in India. The company's products include mother care, nursing bottles and nipples, baby skin care, baby healthcare, baby wipes and tissues, cleaning and sterilising, diaper and laundry care, weaning, pacifiers and teethers, baby outing, baby hygiene, travel systems, strollers, swings, pack n play, high chairs, car seats, and walkers; and sippy cups, tableware, medical, grooming, and accessories. Its products also comprise noodle soups; and coconut, ready to eat, paste, sauce, rice, and food snack products, as well as potato chips. The company provides its products under the brands of Pigeon, Palmers, Nuby, Mustela, Graco, Quito Mos, Real Thai, Raavi, Kinh Do, Kewpie, Munchy's, Mister Potato, Lady Anna, and Nongshim. Rama Vision Limited sells its products through various sales channels comprising baby shops, pharmacies, super markets, hyper markets, bulk sales markets, and departmental stores, as well as through e-commerce. The company was incorporated in 1989 and is based in New Delhi, India.

Source: Capital IQ

E. ASSESSMENT OF THE IMPACT ON VALUATION OF THE POTENTIAL DILUTIONARY IMPACT OF OPTIONS

Options to be issued to Mr Mittoni and Mr Moore

Based on current estimates at the date of this Report, the Company will issue 25,679,327 Options to Mr Mittoni and 5,135,865 Options to Mr Moore in under Resolutions 12 and 13, respectively. The proposed issue of Options to Mr Mittoni and Mr Moore under Resolutions 12 and 13, respectively, is considered by the Company to be a long-term incentive under the Company's Employee Incentive Plan.

As the Options are American Options (may be exercised at any time before the expiration date), we have utilised the binomial options valuation model to enable expected early exercise of the Options to be factored into the valuation.

The binomial model uses either a binomial or a trinomial distribution process to derive value by separating the total maturity period of the option into discrete periods. When progressing from one time period, or node, to another, the underlying common stock price is assumed to have an equal probability of increasing and/or decreasing by upward and downward price movements.

The inputs and assumptions we have used in the binomial model to value the potential dilutionary impact of the Options are set out in the table below.

Input	Options issued to Mr Mittoni and Mr Moore - Resolutions 12 and 13		
Number of options	10,271,731	10,271,731	10,271,731
Valuation date	12-Oct-20	12-Oct-20	12-Oct-20
Grant date/vesting date	20-Nov-20	01-Nov-21	01-Nov-22
Expiry date	1-Nov-23	1-Nov-24	1-Nov-25
Exercise price	\$0.138000	\$0.166000	\$0.199000
Initial share price	\$0.0310	\$0.0310	\$0.0310
Maximum option life in years	3.00	3.00	3.00
Assessed volatility	120%	120%	120%
Risk free rate	0.135%	0.210%	0.240%
Dividend yield	0%	0%	0%
Early exercise factor	2.5	2.5	2.5

Source: Management and RSM analysis

Valuation date and option life – we have valued the options as at the date of this Report and accordingly, have calculated risk free rates at 12 October 2020 that cover the period that best matches the life of the Options under the terms of the Options to be issued.

Exercise price – subject to the terms of the various options on issue as set out above.

Initial share price – we have adopted a share price of \$0.031, being our assessment of the value of a Funtastic share immediately after the Proposed Transactions on a controlling basis at the preferred value (midpoint) of our range, before adjusting for the potential dilutionary impact of the Options.

Volatility – the volatility of the share price is a measure of the uncertainty about the returns provided by Funtastic shares. Generally, it is possible to predict future volatility of a stock by reference to its historical volatility. A share with a greater volatility has a greater time component of the total value.

Our assumption is predicated on the fact that historical volatility is representative of expected future volatility.

Based on the above, and, having regard to the liquidity and historical volatility of Funtastic's shares, we have included a volatility of 120% for the Company in our assessment, based on the average weekly and monthly share price volatility of Funtastic for the last three years.

Risk free rate – we have determined this based on the yield of Commonwealth bond rates at 12 October 2020 that cover the period that best match the life of the Options under the terms of the Options to be issued.

Dividend yield – we have utilised a dividend yield of 0% on the basis that Funtastic has no current plans to issue dividends.

Vesting condition – as set out above, the Options vest at grant date, subject to Mr Mittoni's and Mr Moore's continued employment with the Company.

Early exercise factor – Expected early exercise is factored into the valuation by our application of the binomial model. The model incorporates an exercise factor, which determines the conditions under which an option holder is expected to exercise their options. It is defined as a multiple of the exercise price (e.g. 2.5 would mean that on average employees tend to exercise their options when the stock price reaches 2.5 times the exercise price).

This is considered more reliable than trying to guess the average time to exercise. For example, trying to estimate an average time after which employees exercise is likely to be inaccurate as during periods when the market is high employees are more likely to exercise early as opposed to times when the market is low. Using an exercise multiple, which is based on a robust theory of stock price behaviour/distribution overcomes these problems.

We have assumed that the exercise factor for the Options is 2.5. There have been a number of historical studies that indicate that option holders early exercise options generally at between 2 to 3 times the exercise price, with the higher multiples generally attributable to more senior employees within the company.

Based on the inputs and assumptions above, our assessed value of the potential dilutionary impact of the unlisted Options immediately after the Proposed Transactions are set out in the table below.

Option type	Number of Options	Exercise price (\$)	Value of one option (\$)	Total dilutionary impact (\$)
Employee Incentive Plan	10,271,731	0.138	\$0.0118599	\$121,821
Employee Incentive Plan	10,271,731	0.166	\$0.0111392	\$114,419
Employee Incentive Plan	10,271,731	0.199	\$0.0104240	\$107,073
Total				\$343,313

Source: Management and RSM analysis

F. INDUSTRY OVERVIEW

Toy and Sporting Goods Wholesaling in Australia

Funtastic Limited generates the majority of its income from the Toy and Sporting Goods Wholesaling industry³.

Industry operators wholesale toys, bicycles and bicycle parts, playground equipment, firearms, ammunition, fireworks, and sporting equipment (except clothing, footwear and tents). Wholesalers source these products from domestic and international manufacturers and then sell them to retailers such as specialist stores, department stores, educational institutions, and clubs or associations.

Industry revenue is expected to decrease at an annualised 3.5% over the five years through 2019-20, to \$3.1 billion. Declining discretionary incomes, coupled with volatile consumer sentiment, have significantly constrained the industry's performance over the period.

Industry revenue is forecast to decline at an annualised 1.6% over the five years through 2024-25, to \$2.8 billion. Although demand from toy and sporting goods retailers is anticipated to increase over the next five years, ongoing wholesale bypass trends are likely to limit industry growth. Industry firms will continue to heavily rely on cheap imports from China over the next five years, particularly as the Australian dollar is anticipated to appreciate over the period.

Key external drivers which can influence the industry are:

- demand from sport and camping equipment retailing;
- demand from toy and game retailing;
- population ages 14 and younger;
- trade-weighted index; and
- sport participation.

The key success factors which can influence the industry are:

- holding a licence;
- ability to control stock on hand;
- supply contracts in place for key inputs;
- having marketing expertise; and
- production of goods currently favoured by the market.

The industry displays low market share concentration, with the four largest players expected to account for less than 40% of the market in 2019-20. Industry players have struggled to increase their market share due to the industry's highly fragmented nature, diverse product range and high competition. Price, product range and ability to meet strict delivery times are key areas of competition among operators.

The industry exhibits moderate barriers to entry, with the major barrier being the access to the licences of the major overseas toy and sporting goods manufacturers. In addition, the costs of establishing a warehouse and distribution system may deter some firms from entering the industry.

Impact of COVID-19

The COVID-19 outbreak is expected to result in weaker industry revenue due to projected declines in demand from downstream markets. Further, the availability of industry products is anticipated to be delayed as many are sourced from overseas markets, as well as reduced manufacturing activity. Projected declines in the value of the Australian dollar is likely to increase the cost of internationally sourced products, placing upward pressure on product prices.

³ IBISWorld Industry Report – F3734 Toy and Sporting Goods Wholesaling in Australia (April 2020)

Computer and Computer Peripheral Wholesaling in Australia

Mittoni Pty Ltd operates in the Computer and Computer Peripheral Wholesaling industry⁴. Industry firms wholesale computers, tablets, computer peripheral equipment, computer servers, mainframe computers, computer software, computer games and gaming consoles.

Industry revenue is expected to decrease at an annualised 1.0% over the five years through 2019-20, to \$20.5 billion. Wholesalers have continued to face pressure from intense competition, substitute products and wholesale bypass. As a result of strong price competition, wholesalers have struggled to pass on increased manufacturer costs, squeezing industry profitability.

Industry revenue is forecast to decline at an annualised 0.2% over the five years through 2024-25, to \$20.3 billion. Intensifying price competition and the continued rise of wholesale bypass are also forecast to constrain industry revenue.

Key external drivers which can influence the industry are:

- capital expenditure by the public sector;
- demand from computer and software retailing;
- private capital expenditure on machinery and equipment;
- demand from online shopping;
- IT and telecommunications adoption; and
- real household discretionary income.

The key success factors which can influence the industry are:

- having an extensive distribution/collection network;
- effective product promotion;
- ability to control stock on hand;
- provision of superior after sales service; and
- proximity to key markets.

The industry displays moderate market share concentration, with the four largest players expected to account for just over 40% of the industry revenue in 2019-20. This has increased over the past five years due to acquisitions and the exit of many smaller players from the industry.

The industry is highly competitive. Internally, industry operators compete on price, service, and product range and brands sold. Externally, wholesalers compete with producers and wholesalers of substitute products, such as smartphones, and manufacturers that bypass wholesalers.

The industry exhibits moderate barriers to entry, with the major barrier being the large operators with popular computer goods, attractive products, investments in strong supply chain management systems, economies of scale and significant resources.

Impact of COVID-19

The COVID-19 outbreak is expected moderately affect the industry. There is expected to be a short-term boost in sales of industry products as businesses shift to working remotely while restrictions are in place. However, business confidence and the total number of businesses in Australia are expected to decline, offsetting the surge in demand from remote working.

The supply may be limited by the shutdown of many manufacturing facilities. In addition, with household remaining at home due to government directions, this may result in a slight increase in demand for entertainment products such as gaming consoles and computers. However, this is expected to be nullified by falls in discretionary income and consumer sentiment.

⁴ IBISWorld Industry Report – F3492 Computer and Computer Peripheral Wholesaling in Australia (June 2020)

Online Toy Sales in Australia

Hobby Warehouse Pty Ltd operates in the Online Toy Sales industry⁵. Industry players sell toy and hobby goods online. Products include traditional dolls and toys, electronic toys (excluding video games), board games, hobby kits and craft supplies. Industry operators include online-only retailers and bricks-and-mortar stores with an online presence.

Industry revenue is expected to increase at an annualised 11.4% over the five years through 2019-20, to \$274.0m. Increased internet connectivity, improved transaction security and a rise in consumer confidence in online shopping have benefited industry operators. These factors, coupled with a rise in the population aged 14 and younger, have supported growth in online toy sales and contributed to the industry's strong performance.

Industry revenue is forecast to increase at an annualised 5.0% over the five years through 2024-25, to \$350.3m. Online sales allow retailers to reach broader geographic markets. Profit margins are expected to improve as incumbent operators improve their economies of scale and reduce their cost base. Faster internet speeds are also anticipated to boost growth.

Key external drivers which can influence the industry are:

- internet subscribers;
- population aged 14 and younger;
- real household discretionary income; and
- consumer sentiment index.

The key success factors which can influence the industry are:

- having marketing expertise;
- ability to control stock on hand;
- having a good reputation; and
- having an extensive distribution/collection network.

The industry displays low market share concentration, with the four largest players expected to account for less than 40% of the industry revenue in 2019-20. The demise of Toys "R" Us, which was previously the largest operators in the industry, has caused the level of concentration to decline over the past five years. Amazon's entry into the Australian retail market is expected to intensify competition.

The industry is highly competitive. Internally, industry operators compete on price, product range, marketing, size of operations and reputation. Externally, industry operators compete with foreign online retailers, traditional bricks-and-mortar retailers and substitute products such as video games and tablet devices.

The industry exhibits minimal barriers to entry. The costs of establishing an online store are lower than for the traditional retail industries. However, new entrants must purchase a website and domain name and build relationships with suppliers to guarantee a consistent and reliable supply of products.

⁵ IBISWorld Industry Report – OD4169 Online Toy Sales in Australia (January 2020)

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ANNEXURE B

SUMMARY OF KEY TERMS OF THE FUNTASTIC EMPLOYEE INCENTIVE PLAN RULES 2020

1 Purpose

The Company has established the Plan to encourage Employees to share in the ownership of the Company and to promote the long-term success of the Company as a goal shared by all Employees.

2 Eligibility

All full-time or permanent part-time employees, officers, or directors of the Company or any related body corporate of the Company (**Employees**) that have satisfied the criteria of the Board from time to time are eligible, at the invitation and discretion of the Company, to be issued Awards under the Plan (**Participants**).

Awards and any subsequent Shares issued on the exercise or vesting of any Awards may only be issued to the Employee to whom the offer was made.

3 Administration

The Plan is administered by the Board or any subcommittee delegated by the Board with authority to administer the Plan.

4 Offer of Awards

The Plan provides for the grant of the following awards to Employees (each an **Award**):

- (a) Options (rights to purchase Shares);
- (b) Performance Rights (rights to be issued Shares for nil exercise price upon the satisfaction of certain vesting conditions);
- (c) Service Rights (rights to be issued Shares for nil exercise price upon the satisfaction of certain vesting conditions which relate only to the continued employment of the participant);
- (d) Deferred Share Awards (a right to receive Shares in lieu of wages, salary, director's fees or other remuneration or in lieu of any discretionary incentive payment, subject to certain vesting conditions);
- (e) Exempt Share Awards (Shares issued for no consideration or as a discounted issue price with the intention that the total value or discount will be exempt from tax);
- (f) Cash Rights (rights to be paid a cash amount upon the satisfaction of certain vesting conditions)
- (g) Share Appreciation Rights (rights to receive payment upon vesting in the form of Shares or cash, equal to the difference between the Fair Market Value of Shares on the exercise date and the price of such Shares on the grant date).

5 Terms of grant

A grant of Awards under the Plan is subject to both the Plan Rules and the terms of the specific grant. No offer will be made to the extent that it would contravene the Company's Constitution, the Listing Rules, the Corporations Act, any other applicable law or any applicable relief granted by ASIC.

6 Dilution limit

The Board will not grant any Award unless it is satisfied that the number of Shares offered or that may be offered under the Plan or any other equity plan (including any Shares to be issued on the vesting or exercise of an Award) over the previous 3 years is less than 5% of the total number of Shares on issue.

7 Cash settlement

In lieu of the Company's obligation to issue or transfer Shares upon the exercise of an Award, the Company may make a cash payment to the Participant equivalent to the Fair Market Value as at the date of exercise of the Award (less any unpaid Exercise Price applicable to the exercise of the Award) multiplied by the relevant number of Shares required to be issued or transferred to the Participant upon exercise of the Award.

8 Shares

A Share issued under the Plan will be a fully paid ordinary Share in the Company, ranking equally with, and having the same rights and entitlements as, other ordinary shares in the Company on issue at the date of allotment of the Share (other than rights and entitlements accrued prior to the date of allotment of the Share).

Unless the Board resolves otherwise, the Company will apply for official quotation of any Shares issued under the Plan.

The Board can decide whether to purchase Shares on-market or issue new Shares on exercise of equity instruments.

9 Restrictions on disposal

The Board may impose a restriction on the sale or disposal of any Awards or any Shares issued on the exercise of an Award.

10 Change of Control

On the occurrence of a Change of Control, the Board will determine, in its sole and absolute discretion, the manner in which all unvested and vested awards will be dealt with.

11 Hedging

Participants must not enter into transactions or arrangements, including by way of derivatives or similar financial products, which limit the economic risk of holding unvested Awards.

12 Participation

Participants are not entitled to participate in a new issue of Shares or other securities made by the Company to holders of its Shares without exercising the Awards before the record date for the relevant issue.

13 Adjustments

The following adjustments apply to Options, Performance Rights, Services Rights and any other Awards which entitle the holder to acquire Shares on exercise or vesting of that Award.

13.1 Bonus issues

If, prior to the exercise of an Award, the Company makes a pro-rata bonus issue to the holders of its Shares, the numbers of Shares to be issued on exercise of the Award will be adjusted to take into account the number of bonus Shares which would have been issued to the Participant if the Award had been exercised prior to the record date.

If the Company makes a pro-rata bonus issue to holders of restricted Awards, the Shares issued to Participants under the pro-rata bonus issue will be subject to the restriction period which applies to the restricted Awards.

13.2 *Other reorganisations of capital*

If, prior to the exercise of an Award, the Company undergoes a reorganisation of capital (other than by way of a bonus issue or issue for cash) the terms of the Awards will be changed to the extent necessary to comply with the Listing Rules as they apply at the relevant time.

14 *Amendment*

The Board may amend the Plan Rules provided that such amendment do not materially prejudice the rights of existing Participants.

15 *ASX Listing Rules*

The Board may only exercise its powers in accordance with the Listing Rules.

If you are attending the virtual Meeting please retain this Proxy Form for online Shareholder registration.

[EntityRegistrationDetailsLine1Envelope]
[EntityRegistrationDetailsLine2Envelope]
[EntityRegistrationDetailsLine3Envelope]
[EntityRegistrationDetailsLine4Envelope]
[EntityRegistrationDetailsLine5Envelope]
[EntityRegistrationDetailsLine6Envelope]

[HolderNumber]

Holder Number:
[HolderNumber]

Your proxy voting instruction must be received by **11.00am (AEDT) on Saturday, 21 November 2020**, being **not later than 48 hours** before the commencement of the Annual General Meeting. Any proxy voting instructions received after that time will not be valid for the scheduled Meeting.

Capitalised terms in this Proxy Form have the meanings given to them in the Notice of Meeting.

SUBMIT YOUR PROXY

Complete the form overleaf in accordance with the instructions set out below.

YOUR NAME AND ADDRESS

The name and address shown above is as it appears on the Company's share register. If this information is incorrect, and you have an Issuer Sponsored holding, you can update your address through the investor portal at <https://investor.automic.com.au/#/home>. Shareholders sponsored by a broker should advise their broker of any changes.

STEP 1 – APPOINT A PROXY

If you wish to appoint someone other than the Chair of the Meeting as your proxy, please write the name of that individual or body corporate. A proxy need not be a Shareholder of the Company. Otherwise if you leave this box blank, the Chair of the Meeting will be appointed as your proxy by default.

DEFAULT TO THE CHAIR OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chair of the Meeting, who is required to vote these proxies as directed. Any undirected proxies that default to the Chair of the Meeting will be voted according to the instructions set out in this Proxy Form, including where the Resolutions are connected directly or indirectly with the remuneration of Key Management Personnel.

STEP 2 - VOTES ON ITEMS OF BUSINESS

You may direct your proxy how to vote by marking one of the boxes opposite each item of business. All your Shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of Shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF SECOND PROXY

You may appoint up to two proxies. If you appoint two proxies, you should complete two separate Proxy Forms and specify the percentage or number each proxy may exercise. If you do not specify a percentage or number, each proxy may exercise half the votes. You must return both Proxy Forms together. If you require an additional Proxy Form, contact Automic Registry Services.

SIGNING INSTRUCTIONS

Individual: Where the holding is in one name, the Shareholder must sign.

Joint holding: Where the holding is in more than one name, all Shareholders should sign.

Power of attorney: If you have not already lodged the power of attorney with the registry, please attach a certified photocopy of the power of attorney to this Proxy Form when you return it.

Companies: To be signed in accordance with your constitution. Please sign in the appropriate box which indicates the office held by you.

Email Address: Please provide your email address in the space provided.

By providing your email address, you elect to receive all communications despatched by the Company electronically (where legally permissible) such as a notice of meeting, proxy form and annual report via email.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate 'Appointment of Corporate Representative' should be produced prior to admission. A form may be obtained from the Company's share registry online at <https://automic.com.au>.

Lodging your Proxy Voting Form:

Online:

Use your computer or smartphone to appoint a proxy at <https://investor.automic.com.au/#/loginsah> or scan the QR code below using your smartphone

Login & Click on 'Meetings'. Use the Holder Number as shown at the top of this Proxy Form.



BY MAIL:

Automic
GPO Box 5193
Sydney NSW 2001

IN PERSON:

Automic
Level 5, 126 Phillip Street
Sydney NSW 2000

BY EMAIL:

meetings@automicgroup.com.au

BY FACSIMILE:

+61 2 8583 3040

All enquiries to Automic:

WEBCHAT:

<https://automicgroup.com.au/>

PHONE: 1300 288 664 (Within Australia)
+61 2 9698 5414 (Overseas)

Further information on how to do this is set out in the Notice of Meeting. The Explanatory Notes that accompany and form part of the Notice of Meeting describe the various matters to be considered.

Resolutions	For	Against	Abstain	Resolutions	For	Against	Abstain
1. Approval of the Remuneration Report	☐	☐	☐	11. Approval of issue of Shares to TRU Kids, Inc.	☐	☐	☐
2. Re-election of Director, Ms Anderson	☐	☐	☐	12. Approval of the grant of Options to Mr Mittoni	☐	☐	☐
3. Re-election of Director, Mr Tripodi	☐	☐	☐	13. Approval of the grant of Options to Mr Moore	☐	☐	☐
4. Approval of the Funtastic Employee Incentive Plan	☐	☐	☐	14. Approval of the grant of Deferred Share Awards to Mr Moore	☐	☐	☐
5. Approval of the grant of Share Appreciation Rights to Director, Ms Anderson	☐	☐	☐	15. Approval of the issue of Shares to Mr Moore under the Placement	☐	☐	☐
6. Approval of the grant of Share Appreciation Rights to Director, Mr Tripodi	☐	☐	☐				
7. Approval of additional 10% Placement Capacity	☐	☐	☐				
8. Approval of issue of Shares to the Sellers under the Share Sale Deed	☐	☐	☐				
9. Approval of issue of Shares under the Placement	☐	☐	☐				
10. Approval of issue of Shares under the Loan Conversion and Repayment Agreement	☐	☐	☐				

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

Individual or Shareholder 1	Shareholder 2	Shareholder 3
Sole Director and Sole Company Secretary	Director	Director / Company Secretary
Contact Name:		
Email Address:		
Contact Daytime Telephone		Date (DD/MM/YY)
		/ /

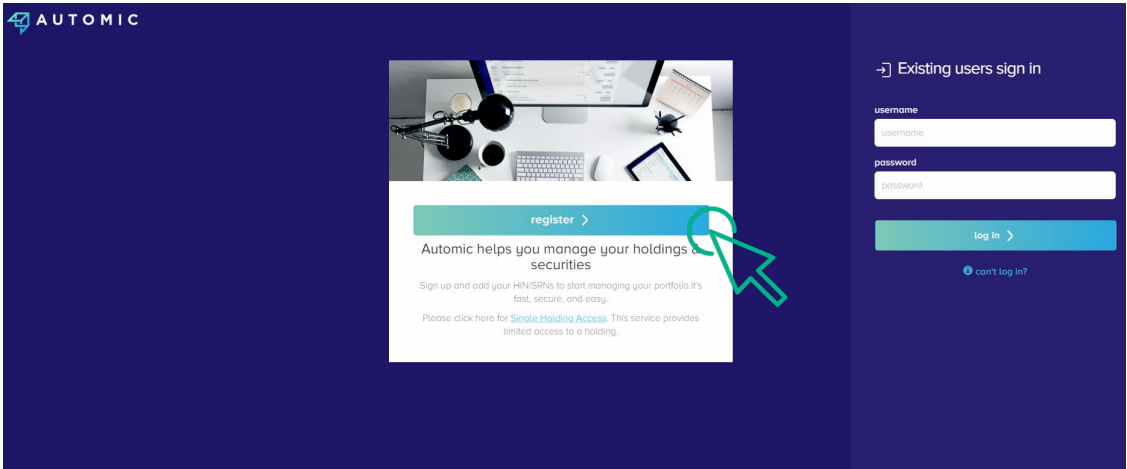
By providing your email address, you elect to receive all of your communications despatched by the Company electronically (where legally permissible).

Virtual Meeting Registration and Voting

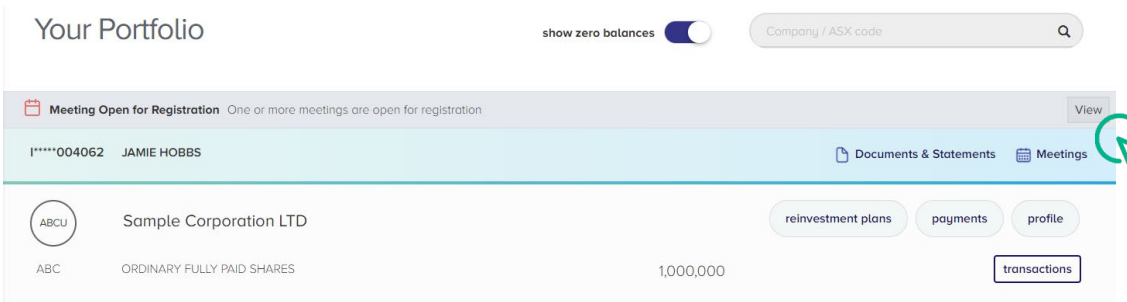


REGISTRATION

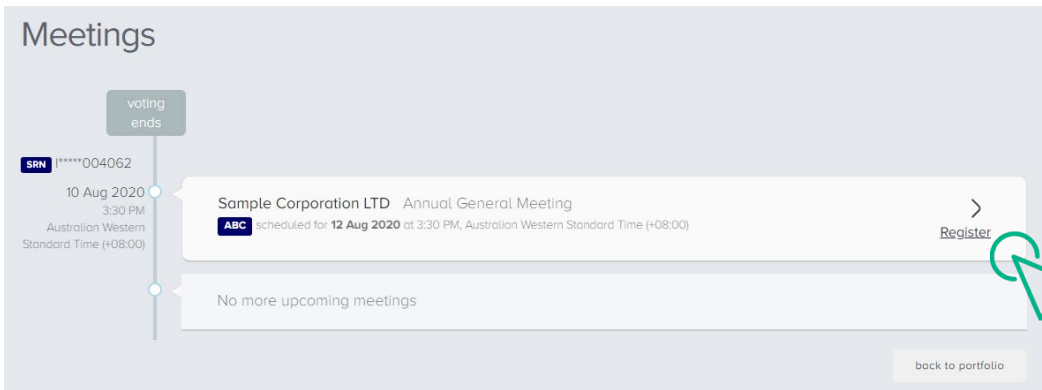
- Go to: <https://investor.automic.com.au/#/home>.
- Log in using your existing username and password or click on “register” and follow the on-screen prompts to create your login credentials.



- Once logged in you will see that the meeting is open for registration. Click on “view”.

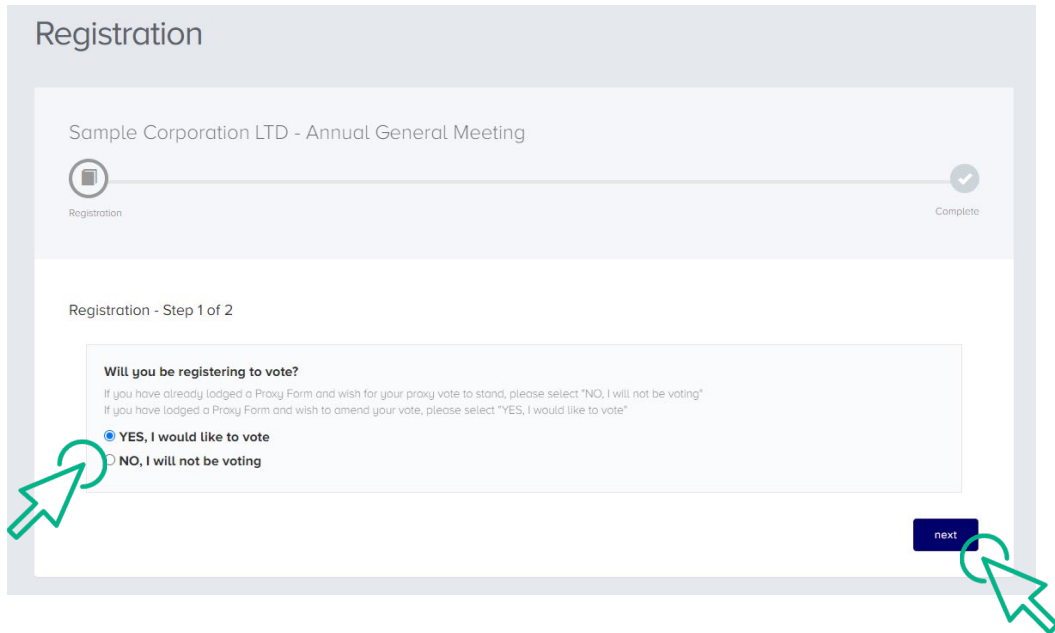


- Click on “register” to register your attendance for the meeting.



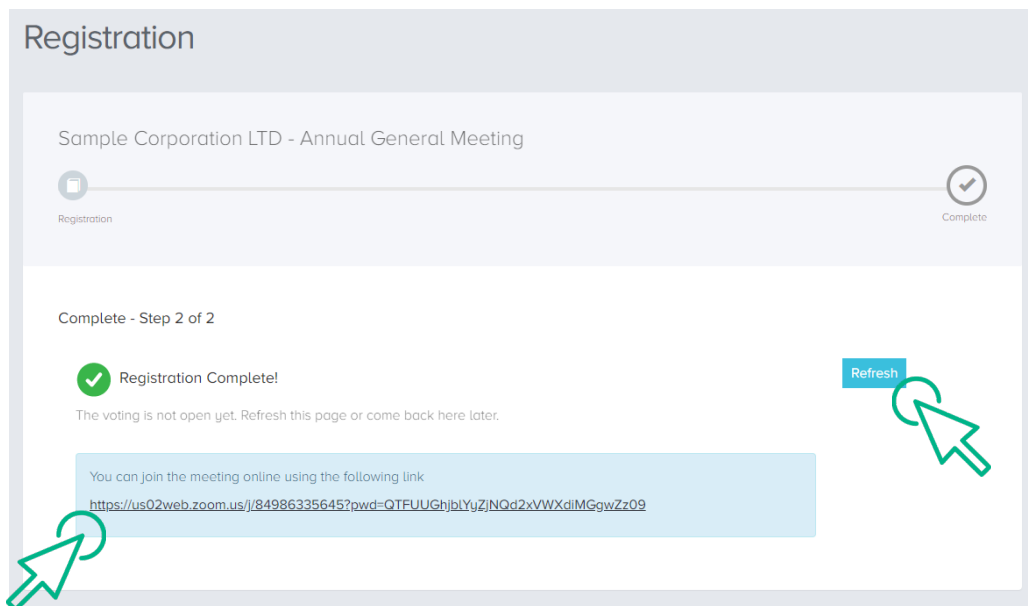
REGISTRATION

- Select “yes, I would like to vote” and then click “next”.



The screenshot shows the 'Registration' page for 'Sample Corporation LTD - Annual General Meeting'. It features a progress bar at the top with 'Registration' on the left and 'Complete' on the right. The main content area is titled 'Registration - Step 1 of 2'. It contains a question: 'Will you be registering to vote?' followed by two instructions: 'If you have already lodged a Proxy Form and wish for your proxy vote to stand, please select "NO, I will not be voting"' and 'If you have lodged a Proxy Form and wish to amend your vote, please select "YES, I would like to vote"'. Below these are two radio button options: 'YES, I would like to vote' (which is selected) and 'NO, I will not be voting'. A green arrow points to the 'YES' option. At the bottom right, there is a blue 'next' button with a green arrow pointing to it.

- You will be placed on a holding page until voting opens for the meeting. From here you can access the meeting video/audio by selecting the meeting URL.
- Once the Chair of the Meeting declares voting open, you should select “refresh”.



The screenshot shows the 'Registration' page for 'Sample Corporation LTD - Annual General Meeting'. It features a progress bar at the top with 'Registration' on the left and 'Complete' on the right. The main content area is titled 'Complete - Step 2 of 2'. It contains a green checkmark icon followed by the text 'Registration Complete!'. Below this is a message: 'The voting is not open yet. Refresh this page or come back here later.' At the bottom, there is a light blue box containing the text 'You can join the meeting online using the following link' and a Zoom URL: 'https://us02web.zoom.us/j/84986335645?pwd=QTFUUGhjb1YyZlNkd2xVWXdlMGgwZz09'. A green arrow points to the URL. At the top right, there is a blue 'Refresh' button with a green arrow pointing to it.

VOTING

- The next screen will display the resolutions to be put to the meeting.
- The Chair of the meeting will provide instructions on when to mark your vote.
- You record your vote by selecting either “for”, “against” or “abstain” next to the appropriate resolution.
- Once voting has been declared closed you must select “next” to submit your vote.

Voting

Sample Corporation LTD - Annual General Meeting

Registration Poll Review Complete

Poll - Step 2 of 4

You can join the meeting online using the following link
<https://us02web.zoom.us/j/84986335645?pwd=QTFUUGhjbUyZlNQd2xVWXdlMGgwZz09>

Resolutions
You must vote on all resolutions, except for those marked as withdrawn.

1	Remuneration Report	for	against	abstain
2	Re-Election of Mr Robert Smith as Director	for	against	abstain

prev next

- On the next screen, check your vote is correct and select the box next to “declaration” – you cannot confirm your vote unless you select this box.
- Select “confirm” to confirm your vote – you CANNOT amend your vote after pressing the “confirm” button.

Review - Step 3 of 4

Confirmation
Please review and confirm.

1	Remuneration Report	for	against	abstain
2	Re-Election of Mr Robert Smith as Director	for	against	abstain

☒ **Declaration** PLEASE NOTE: You will not be able to change your votes after pressing the **confirm** button.
By pressing **confirm** you agree that this online voting form has been signed, authorised and submitted by you, in your capacity as a registered holder (or legally authorised representative) of the Company, in accordance with the requirements under the Company's Constitution, the Corporations Act 2001 (Cth) and Automic's terms and conditions.

prev confirm

VOTING COMPLETE

- Your vote is now lodged and is final.

Voting

Sample Corporation LTD - Annual General Meeting

Poll

Review

Complete

Complete - Step 3 of 3

Complete

You have successfully submitted your vote.

You can join the meeting online using the following link

<https://us02web.zoom.us/j/85784417406?pwd=TFF0TTdGTEhGSENIbUN5NzF3bUUQT09;>