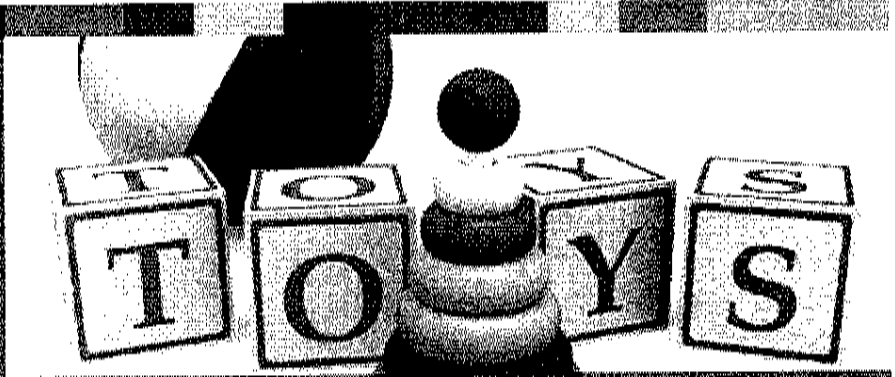




## Frequently Asked Questions



## Administrator's Update to Shareholders

Brainytoys Limited (Subject to Deed of Company Arrangement)

ACN 001 894 033

ASX code: BRT ("Brainytoys")

17 February 2010

What was the outcome of the second creditors meeting?

The second meeting of creditors was held on 15 January 2010. At that meeting creditors resolved that Brainytoys enter into a Deed of Company Arrangement ("DOCA") to effectuate a Recapitalisation Deed with Romfal Corporate Pty Ltd ACN 131 205 386 and Noble Investments Pty Ltd ACN 007 998 914. A summary of the material terms of the Recapitalisation Deed is annexed to this announcement.

The DOCA and Recapitalisation Deed were both executed on 2 February 2010.

What is the process from here?

It is a condition precedent that the shareholders of Brainytoys approve the Recapitalisation Deed. In this regard, the Deed Administrator will convene a meeting of shareholders of Brainytoys to consider and if thought fit approve the Recapitalisation Deed. The notice of meeting is being finalised at present and will be sent to shareholders,

together with an Explanatory Statement, shortly. It is expected that the shareholders meeting will be held late March 2010.

Assuming the requisite shareholder approval is obtained and Brainytoys satisfies any conditions that the ASX have prior to approving the reinstatement of Brainytoys securities, it is anticipated that Brainytoys will be quoted on the ASX as soon as possible following the shareholders' meeting.

Who can I contact for further information/

The Deed Administrator will continue to provide further updates to shareholders by way of announcement to the ASX. Any other urgent queries should be directed to Pitcher Partners in Perth.

**BRYAN HUGHES**  
**DEED ADMINISTRATOR**

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***Restructure / recapitalisation***

- The existing share capital of Brainytoys will be consolidated on a 1 for 5 basis.
- The cash consideration (detailed below) will be raised through one or more capital raisings by Brainytoys coordinated by the Proponent. The Proponent and its associated parties will provide all of the funds required for the capital raisings.
- The Company will provide
  - a. \$350,000 cash in total to the creditors of the Company. \$150,000 to be paid to the secured creditor. \$200,000 to be paid to the Creditors Trust Fund for employees and unsecured creditors (inclusive of the Administrator's costs which shall be no more than \$50,000).
  - b. 50,000,000 fully paid ordinary shares in the capital of the Company to be issued to the secured creditor.
- The capital raisings will be as follows:
  - Up to 400,000,000 shares at an issue price of not less than \$.005 each to raise up to \$2,000,000.
  - 70,000,000 shares to be issued to the Proponent at \$.001 per share.
  - 70,000,000 options to be issued to the Proponent.
- The secured creditor will release the Company from all claims and its security over the Company upon receipt of its respective cash and share consideration.
- The creditors will release the Company from all claims and their right to claim against the Company will be replaced with a right of equal value to claim as beneficiaries against the Creditors' Trust.
- The Deed Administrator (or corporate nominee) will become the Trustee of the Creditors' Trust and will administer the Creditors' Trust in accordance with the Trust Deed. Specifically, the Trustee will realise the assets of the Creditors' Trust and declare and distribute these funds as soon as is practicable and in the best interests of the creditors/beneficiaries.
- The secured creditor has agreed to vote in favour of the recapitalisation proposal.
- The Company may, in due course, change its name to better reflect its current and future activities.
- The Company will retain all of its assets to enable the Company's shares to be quoted on the ASX.
- All of the existing Directors of the Company are to resign or be removed by the Administrator and will be replaced by nominees of the Proponent (with powers limited to lodging a prospectus and undertaking a capital raising) prior to settlement such that a prospectus to raise the capital detailed above can be lodged with the ASIC and ASX as required.

***Conditions Precedent***

The key conditions precedent required to be satisfied in accordance with the Recapitalisation Deed are:

- The creditors of Brainytoys resolve to execute a DOCA to facilitate the Recapitalisation Deed.
- ASX confirming in writing that it will lift the suspension on the trading of Brainytoys shares immediately following settlement on terms satisfactory to the Proponent and the Administrator.
- Obtaining the necessary Brainytoys shareholder approvals at a meeting of the shareholders to facilitate the Recapitalisation Deed.
- All employees of Brainytoys being terminated without any liability to the Company subsequent to the termination of the DOCA.