

BRAINYTOYS LIMITED
ANNUAL GENERAL MEETING
28TH NOVEMBER 2008



CHAIRMAN'S ADDRESS

The year to 30th June 2008 showed a loss of \$4,023,544 included research & development costs of approximately \$1.4 million, which was not satisfactory. Shareholders do not need to be further reminded that the past year has been challenging and disappointing for the Company; it is already reflected in the stock price.

During the past financial year, the Company focussed upon seeking to secure a significant operating presence and sales platform rather than the creation of a business through product development. Clearly, these aspirations have not been realised, and like virtually all toy companies ended the year in worse shape than we started it. In our case, having forfeited our contractual rights (by not settling on 14th November) to the Marshmallow product range license and business, we are left with a residual 3 out of 4 businesses acquired and a need for some additional working capital to support them.

These 3 businesses together (viz Toyway, Brainytoys Inc and Enertec (the RC and Rocking Horse range) are expected to generate sales of approximately \$A14 million in the 2008 calendar year. The Company is also reviewing the potential to launch its own range of marshmallow shooters and related products with a significant potential to replace lost revenue from the MFC business.

Whilst post-mortems can be productive, your Board is instead devoting its energy towards an expedited salvage or improvement of the status quo. In this context, we are continuing to work intensely in the short term upon fund raising initiatives in the US and Australia to capitalise upon:

- (1) Specific (toy industry) rationalisation/disposal opportunities to recover past outlays and enhance the business offering, and/or
- (2) Attractive business acquisition and diversification proposals (accompanied by the appropriate management team) aimed at achieving stable earnings from non-toy industry sources.

Whilst the Board is hopeful of achieving one or more of the proposed value turnaround outcomes being currently worked upon, we are not yet in a position to comment upon the timing or degree of likelihood.

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