

April 28, 2005

## Brainytoys Limited

Australia's Only Listed Toy Development Company

### Introduction

Brainytoys listed in the shell of Auto Enterprises in late March 2005. The Company raised \$1.75m by the issue of 8.75m new shares to fund development and commercialisation of its portfolio of toy and game products.

Since re-listing, it is apparent that shareholders in the previous failed business of Auto Enterprises have been selling into a vacuum of information. Brainytoys presently has approximately 7.7m unrestricted shares held by stale shareholders of Auto Enterprises, which was delisted for seven years, prior to last March. Clearly many will make the most of the opportunity to sell and crystallise a tax loss. This dynamic offers an opportunity for new and better informed investors to take a speculative position in the new and vibrant business opportunity presented by Brainytoys.

### Commissioned

Code		BRT
Shares		30.3 m.
Options	@ 25 cts June '09	8.0 m.
Share Price		\$0.10
Market Capitalisation		\$3 m.
Cash	(est)	\$1.8 m.

### The Business

The Brainytoys business model involves conceptualisation, development and commercialisation of toys and games. The Company utilises the latest computer based, design aids to conceptualise and animate its products. The company has recently purchased state-of-the-art, 3D prototype making machines (printers) with which it can produce physical models of its toys and electronic games so as to demonstrate and refine concepts for customers. Brainytoys now has a market advantage, being the only toy company in Australia to own and operate 3D printers, enabling the rapid and effective demonstration of toy and game concepts. This innovation should assist Brainytoys to expedite the process of bringing product to market, by allowing rapid, low cost changes to be made to prototypes if potential distributors so request.

The toy industry is very competitive, so detailed product development plans are almost never available until a product hits the market. Recently some major toy companies such as Mattel have lost market share as new products, for instance MGA's Bratz doll, have taken market share from Barbie dolls. Profits in this industry are driven by product innovation so the major toy and game companies are keen to work with innovative companies such as Brainytoys to develop new product.

The company will most likely seek to initially license product so as to establish credibility for its products and business model while beginning to build a revenue stream, but will also look at manufacture and distribution options. Success in the toy industry is driven by the introduction of new innovative product. Development of just one or two substantial "hit" products has the potential to deliver spectacular profits for shareholders.

The Company's Board brings an impressive set of skills in the area of finance, marketing and corporate affairs. Members include the Managing Director Alex Aguero, Chairman and former ERG Director, Ian Allen along with Marketforce Director and ex-Chairman, Howard Read and corporate advisor, Brett Fraser.

### Recent Developments

Over the past three months, MD Alex Aguero has visited several major toy and game manufacturers as well as distributors in Asia, Europe, the USA and within Australia. As a direct result of these meetings, Brainytoys is now working with a number of potential customers to further develop product design, packaging and costing for a selection of products, so that a more detailed approach can be made to the market, most likely in June or July. If this work is successful, a decision to either license or manufacture for distribution could be made as early as Q4 2005.



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### The Way Ahead

Following the purchase of new equipment, the Company will hold approximately \$1.8m of cash (6 cps), which is sufficient to meet operating costs until the end of 2006, assuming no other revenue is generated.

Management expects to produce prototypes of its products and develop detailed business plans for a number of products that can be offered to companies which have shown interest in the concepts.

Over the coming three to four months, management intends to travel with its prototypes and business plans with the aim of progressing commercial discussions with some of the largest toy companies in the world on a number of products.

It is possible that Brainytoys will generate some revenue in the medium term by conducting at least one paid consulting assignment, working on product development for a toy company.

### The Investment Opportunity

The stock market is pricing newly listed toy and game development and marketing company, Brainytoys as a pure listed shell, effectively giving it no value for cash or other assets, including a portfolio of about 20 game and toy products, some of which are approaching market ready status.

The company offers high risk speculative appeal, based on:

- ◇ Low barriers to entry for the toy industry;
- ◇ A growing reliance by large toy companies on small companies to supply new product;
- ◇ A portfolio of largely market ready products; and
- ◇ Good industry connections of its management; and positive feedback from product presentations conducted to date.
- ◇ Even a modest success over the next two years could have a significant impact on shareholder wealth.

Presently the market is valuing the Company as a shell worth less than \$1m, after subtracting cash and other assets. Brainytoys is a highly speculative company, not dissimilar to a gold exploration company where success is often hard to find, but one good toy or game product can yield substantial gains as the market re-rates the company. ***Present market turbulence combined with the run up to the tax planning period may represent an excellent opportunity to purchase stock prior to 30 June, at close to cash asset backing. The Company is highly speculative at this stage of its development, relying on the skills of its management to build a successful business.***

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