

**BRAINYTOYS LIMITED**

ABN 28 001 894 033

*Registered Office:* 6/34 York Street  
North Perth WA 6006  
Phone 08 9228 0703 Fax 08 9228 0704

28 February 2005

Company Announcements  
Australian Stock Exchange Limited  
20 Bond Street  
SYDNEY NSW 2000

BY FAX 1900 999 279

**Half Yearly Report**

Please find attached the Half Year Report for Brainytoys Limited.

For more information, contact Jay Stephenson on 08 9228 0703.

JAY STEPHENSON  
COMPANY SECRETARY

**BRAINYTOYS LIMITED**  
**AND CONTROLLED ENTITIES**

ABN 28 001 894 033

**HALF YEAR REPORT**  
**31 DECEMBER 2004**

**BRAINYTOYS LIMITED  
AND CONTROLLED ENTITIES**  
ABN 28 001 894 033  
**HALF YEAR REPORT DECEMBER 2004**

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## DIRECTORY

### COMPANY SECRETARY

Jay Stephenson  
Tel: 08 9228 0703  
Fax: 08 9228 0704

### REGISTERED OFFICE

Unit 6, 34 York Street  
NORTH PERTH WA 6006

### SHARE REGISTRY

Computershare Investor Services  
Level 2, Reserve Bank Building  
45 St Georges Terrace  
PERTH WA 6000  
Tel 1300 557 010  
Fax 08 9323 2033

### AUDITORS

BDO  
Chartered Accountants  
Level 8,  
256 St Georges Terrace  
PERTH WA 6000

### BANKERS

National Australia Bank  
PERTH WA 6000

**BRAINYTOYS LIMITED  
AND CONTROLLED ENTITIES  
ABN 28 001 894 033  
HALF YEAR REPORT DECEMBER 2004**

## **DIRECTORS' REPORT**

The directors present their report for the half year ended 31 December 2004.

The names of the directors in office at any time during or since the end of the period are:

Mr Ian Allen - (appointed 18/10/04)  
Mr Alex Agüero - (appointed 18/10/04)  
Mr Howard Read - (appointed 26/10/04)  
Mr Brett Fraser - (appointed 18/10/04)  
Mr Geoff Gibbs - (resigned 18/10/04)  
Mr J Bruce Gibson - (resigned 18/10/04)  
Mr Donald Wilson - (resigned 18/10/04)  
Mr Brian K Tonkin (alternate for Mr J B Gibson) - (resigned 18/10/04)

Directors have been in office since the start of the period to the date of this report unless otherwise stated.

The loss of the company for the period amounted to \$249,522.

The business acquired 100% Brainytoys.com Pty Ltd on 15 October 2004. As such, the strategic direction of the Company changed from an investment Company to a toy and game Company.

To assist with the acquisition of Brainytoys.com Pty Ltd a total of 33,670,000 shares at \$0.03 were issued as Seed Capital to raise a total of \$1,010,100. Each of the Seed Capital Investors received 1 (one) option for every 2 (two) shares acquired resulting in 16,835,000 options being issued.

The Company lodged a Prospectus dated 9 December 2004 for the offer of 8,750,000 shares at an issue price of 20 cents each to raise a total of \$1,750,000, together with up to 2,187,500 free attaching options on a one for four basis.

Net tangible assets stand at 2.2 cents per fully paid ordinary share at balance date.

No dividends were paid during the period and no recommendation is made as to dividends.

**BRAINYTOYS LIMITED  
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**DIRECTORS' REPORT Cont.**

The company has not made any recovery under the guarantees from two parties arising from the unauthorised transfers of funds to a third party as detailed in the 2001, 2002, and 2004 annual reports.

**Auditors' Independence Declaration**

The Auditors' Independence Declaration forms part of the Directors' Report for the half year ended 31 December 2004.

This relates to the audit report, where they state that they have issued an independent declaration.

The company has obtained Directors and Officers Liability insurance during the period.

Signed in accordance with a resolution of the Board of Directors:

Director

.....  
Mr Ian Allen



**Dated: 28<sup>th</sup> February 2005**

**BRAINYTOYS LIMITED  
AND CONTROLLED ENTITIES**  
ABN 28 001 894 033  
**HALF YEAR REPORT DECEMBER 2004**

**CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE  
for the half year ended 31 Dec 2004**

	Note	6 Months 31 December 2004 \$	6 Months 31 December 2003 \$
Revenues from ordinary activities	2	8,546	3,791
Accounting and Audit fees		(10,838)	(13,462)
Consultancy fees		(11,343)	(8,226)
Share registry and listing fees		(19,361)	(17,691)
Legal costs		-	(2,563)
People Costs		(158,884)	-
Computers and Software		(12,570)	-
Rent		(6,100)	-
Travel and Accommodation		(14,122)	-
Other expenses from ordinary activities		<u>(24,850)</u>	<u>(2,476)</u>
<b>(Loss) / Profit from ordinary activities before income tax expense</b>		<b>(249,522)</b>	<b>(40,627)</b>
Income tax expense relating to ordinary activities		<u>-</u>	<u>-</u>
<b>(Loss) / Profit from ordinary activities after related income tax expense</b>		<b><u>(249,522)</u></b>	<b><u>(40,627)</u></b>
<b>Net (Loss) / Profit</b>		<b><u>(249,522)</u></b>	<b><u>(40,627)</u></b>
Total changes in equity other than those resulting from transactions with owners as owners		<u>(249,522)</u>	<u>(40,627)</u>
Basic earnings per share (cents per share)		(0.64)	(0.31)

The accompanying notes form part of and are to be read in conjunction with these financial statements.

**BRAINYTOYS LIMITED  
AND CONTROLLED ENTITIES**  
ABN 28 001 894 033  
**HALF YEAR REPORT DECEMBER 2004**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2004**

	<b>31 December 2004 \$</b>	<b>30 June 2004 \$</b>
<b>CURRENT ASSETS</b>		
Cash	699,154	137,471
Receivables	7,976	1,163
Other Financial Assets	<u>40,000</u>	<u>40,000</u>
<b>TOTAL CURRENT ASSETS</b>	<u>747,130</u>	<u>178,634</u>
<b>NON CURRENT ASSETS</b>		
Property, Plant and Equipment	49,171	-
Patents and Trademarks	3,979	-
Goodwill on Consolidation	<u>1,211,729</u>	<u>-</u>
<b>TOTAL NON CURRENT ASSETS</b>	<u>1,264,879</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u><b>2,012,009</b></u>	<u><b>178,634</b></u>
<b>CURRENT LIABILITIES</b>		
Payables	<u>105,451</u>	<u>7,834</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>105,451</u>	<u>7,834</u>
<b>TOTAL LIABILITIES</b>	<u><b>105,451</b></u>	<u><b>7,834</b></u>
<b>NET ASSETS</b>	<u><b>1,906,558</b></u>	<u><b>170,800</b></u>
<b>EQUITY</b>		
Contributed Equity	5,656,491	3,671,211
Reserves	714,554	714,554
Accumulated Losses	<u>(4,464,487)</u>	<u>(4,214,965)</u>
<b>TOTAL EQUITY</b>	<u><b>1,906,558</b></u>	<u><b>170,800</b></u>

The accompanying notes form part of these financial statements.

**BRAINYTOYS LIMITED  
AND CONTROLLED ENTITIES**  
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**HALF YEAR REPORT DECEMBER 2004**

**CONSOLIDATED STATEMENT OF CASHFLOWS for the half year ended  
31 December 2004**

	<b>6 Months 31 December 2004 \$</b>	<b>6 Months 31 December 2003 \$</b>
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	-	-
Payments to suppliers	(167,274)	(52,018)
Interest received	8,546	3,791
	<u>                    </u>	<u>                    </u>
Net cash (used in) / provided by operating activities	<u>(158,728)</u>	<u>(48,227)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of non current assets	<u>(53,150)</u>	<u>-</u>
	<u>                    </u>	<u>                    </u>
Net cash (used in)/provided by investing activities	<u>(53,150)</u>	<u>-</u>
<b>Cash Flow from Financing Activities</b>		
Net proceeds from issue of shares	<u>773,561</u>	<u>-</u>
	<u>                    </u>	<u>                    </u>
Net cash (used in)/provided by financing activities	<u>773,561</u>	<u>-</u>
	<u>                    </u>	<u>                    </u>
Net (decrease) in cash held	561,683	(48,227)
Cash at the beginning of the financial year	<u>137,471</u>	<u>199,847</u>
	699,154	151,620
	<u>                    </u>	<u>                    </u>
Decrease in provision for loss on term deposit	<u>                    </u>	<u>-</u>
	<u>                    </u>	<u>                    </u>
Cash at the end of the financial Period	<u><u>699,154</u></u>	<u><u>151,620</u></u>

The accompanying notes form part of this financial report

**BRAINYTOYS LIMITED  
AND CONTROLLED ENTITIES  
ABN 28 001 894 033  
HALF YEAR REPORT DECEMBER 2004**

**NOTES TO THE ACCOUNTS for period ended 31 December 2004**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Preparation**

The half year financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 1029: Interim Financial Reporting, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2004 and any public announcements made by Brainytoys Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The accounting policies have been consistently applied by the company and are consistent with those applied in the 30 June 2004 annual report.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

**INCOME TAX**

The Company adopts the liability method of tax-effect accounting whereby income tax expense shown in the Statement of Financial Performance is based on the operating result before income tax adjusted for any permanent differences.

Timing differences which arise due to the different periods in which items of revenue and expense are included in the determination of operating results before income tax and taxable income are brought to account as either a provision for deferred income tax or an asset described as a future income tax benefit applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the company will derive sufficient future assessable income to tenable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

**INVESTMENTS**

Investments are carried at cost less any material permanent diminutions in the carrying value.

**BRAINYTOYS LIMITED  
AND CONTROLLED ENTITIES  
ABN 28 001 894 033  
HALF YEAR REPORT DECEMBER 2004**

**NOTES TO THE ACCOUNTS cont**

**ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

For the years ending on or after 30 June 2006, all general purpose financial reports prepared in accordance with the requirements of Chapter 2M of the Corporations Act will be required to comply with Australian equivalents to International Financial Reporting Standards (IFRSs) instead Australian Accounting Standards presently on issue. Comparative financial statements must also be presented in accordance with Australian equivalents to IFRSs for the year ending 30 June 2005.

The directors are of the opinion that the key differences in the company's accounting policies which will arise from the adoption of IFRS are:

**Taxation**

A "balance sheet" approach will be adopted under Australian equivalents to IFRSs, replacing the "statement of financial performance" approach currently used by Australian companies. The "balance sheet" method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base. Any initial adjustments to calculate deferred tax assets and liability balances on transition using the new basis will be made through opening balances of retained earnings at 1 July 2004.

**Available-For-Sale Financial Assets**

Currently the entity measures investments at cost, with an annual review by directors to ensure that their carrying amounts are not in excess of their recoverable amount. Under Australian equivalents to IFRSs, available-for-sale financial assets will be measured at fair value under Australian equivalents to IFRSs, with changes in fair value being recognised directly in equity until the asset is sold, at which time the cumulative gain/loss is taken to profit.

**Property, Plant and Equipment – Revalued Assets**

The group currently offsets revaluation increments and decrements within each class of non-current asset. Under Australian equivalents to IFRSs, revaluation decrements can only be offset against the amount held in the asset revaluation surplus for that specific asset, and any excess will be expensed, resulting in the recognition of additional expenses and therefore lower earnings during periods where this occurs. The balance of the asset revaluation surplus will be recalculated on transition on an asset-by-asset basis and the initial impact of these adjustments will be recorded against opening balances of retained earnings at 1 July 2004.

**BRAINYTOYS LIMITED  
AND CONTROLLED ENTITIES**  
ABN 28 001 894 033  
**HALF YEAR REPORT DECEMBER 2004**

**NOTES TO THE ACCOUNTS cont**

	<b>6 Months 31 December 2004 \$</b>	<b>6 Months 31 December 2003 \$</b>
<b>2. PROFIT FROM ORDINARY ACTIVITIES</b>		
The following revenue items are relevant in explaining the financial performance for the interim period:		
Interest received from unrelated parties	8,546	3,791
	<u>8,546</u>	<u>3,791</u>
<b>3. EARNINGS PER SHARE</b>		
Basic earnings per Share	<u>(0.64 cents)</u>	<u>(0.31 cents)</u>
Diluted earnings per share has not been calculated as there are no potential ordinary shares on issue.		
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic EPS	<u>39,074,329</u>	<u>13,074,000</u>
	\$	\$
Earnings used in the calculation of basic EPS	<u>(249,522)</u>	<u>(40,627)</u>

**BRAINYTOYS LIMITED  
AND CONTROLLED ENTITIES  
ABN 28 001 894 033  
HALF YEAR REPORT DECEMBER 2004**

**NOTES TO THE ACCOUNTS (continued)**

**4. SEGMENT REPORTING**

The company holds investments and operates solely in Australia.

**5. Acquisition of a Subsidiary**

The company acquired Brainytoys.com Pty Ltd on 15 October 2004. The purchase was satisfied by the issue of 35,953,000 shares and a cash payment of \$25,000.

**6. CONTINGENT LIABILITIES**

There has been no change in contingent liabilities since the last reporting date.

**7. EVENTS SUBSEQUENT TO BALANCE DATE**

The Company held an Extraordinary General Meeting on 13 January 2004 to Resolve two matters. The following Resolutions were passed at the meeting:

**Resolution 1 – Consolidation of Capital**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That, subject to the Company raising the minimum subscription under the Capital Raising and the passing of all other Resolutions, in accordance with Section 254H of the Corporations Act and the Company's Constitution and for all other purposes, the issued capital of the Company be consolidated on the basis that:

every five (5) fully paid ordinary shares in the capital of the Company be consolidated into one (1) fully paid ordinary share in the capital of the Company; and

every five (5) options to acquire fully paid ordinary shares in the capital of the Company be consolidated into one (1) option to acquire a share,

and where this consolidation results in a fraction of a share being held by a shareholder, the directors of the Company be authorised to round that fraction up to the nearest whole share."

**BRAINYTOYS LIMITED  
AND CONTROLLED ENTITIES  
ABN 28 001 894 033  
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**NOTES TO THE ACCOUNTS (continued)**

**Resolution 2 – Allotment of Shares**

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, subject to the passing of all other Resolutions, for the purposes of Listing Rule 7.1 of the Listing Rules of Australian Stock Exchange Limited and for all other purposes, approval is given for the Company to allot and issue up to 8,750,000 fully paid ordinary shares in the capital of the Company at an issue price of not less than \$0.20 per share (post consolidation) and up to 2,187,500 free attaching options to acquire fully paid ordinary shares in the capital of the Company on the terms set out in the Explanatory Statement accompanying this Notice.”

**BRAINYTOYS LIMITED  
AND CONTROLLED ENTITIES  
ABN 28 001 894 033  
HALF YEAR REPORT DECEMBER 2004**

**DIRECTORS' DECLARATION**

The Directors of the Company declare that:

- a) The financial statements and notes set out on pages 2 to 7:
  - i) comply with Accounting Standard, AASB 1029: Interim Financial Reporting and the Corporations Regulations; and
  - ii) give a true and fair view of the financial position as at 31 December 2004 and performance for the year ended on that date of the Company; and
- b) in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Ian Allen  
Director

Dated this 28th day of February 2004



Chartered Accountants  
& Advisers

Level 8, 256 St George's Terrace Perth WA 6000  
PO Box 7426 Cloisters Square Perth WA 6850  
Tel: (61-8) 9360 4200  
Fax: (61-8) 9481 2524  
Email: bdo@bdowa.com.au  
www.bdo.com.au

**INDEPENDENT REVIEW REPORT  
TO THE MEMBERS OF BRAINYTOYS LIMITED & CONTROLLED ENTITIES**

Scope

We have reviewed the financial report comprising the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, accompanying notes and Directors' Declaration of Brainytoys Limited and Controlled Entities for the half-year ended 31 December 2004. The Company's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029: Interim Financial Reporting, other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the Company's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities & Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the Company's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an opinion.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the director's of the company, a written Auditor's Independence Declaration.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Brainytoys Limited and Controlled Entities is not in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the disclosing entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

BDO

GF Brayshaw  
Partner

Dated: 28<sup>th</sup> day of February 2005  
Perth, Western Australia



**Appendix 4D** in accordance with  
4.2A.3 of ASX Listing Rules

**1 Title Page**

**Entity:** Brainytoys Limited  
**ABN:** 28 001 894 033  
**ASX Code:** BRT  
**Document:** Half Year Report  
**Reporting Period:** Half Year to 31 December 2004  
**Previous Corresponding Period:** Half Year to 31 December 2003

**The information in this report should be read in conjunction with the most recent annual financial report.**

**2 Results for Announcement to the Market**

\$A'000      SA'000  
Dec-04      Dec-03

Revenue from ordinary activities	9	4
Profit (loss) from ordinary activities after tax attributable to members	(249)	(40)
Net profit (loss) attributable to members	(249)	(40)

It is not proposed to pay dividends

**Brief Explanation:** The business acquired 100% Brainytoys.com Pty Ltd on 15 October 2004. As such, the strategic direction of the Company changed from an investment Company to a toy and game Company

Dec-04      Dec-03

**3** Net tangible assets per share with comparison for previous corresponding period

2.2 cents      1.4 cents

**4** The Company has not gained or lost control of any entity during the period

**5** There is no dividend distribution. There was no dividend distribution in the previous corresponding period

**6** There is no dividend distribution plan

**7** There are no associates or joint venture entities

**8** There are no audit disputes or qualifications