

BRAINYTOYS LIMITED
ACN 001 894 033

**NOTICE OF GENERAL MEETING,
EXPLANATORY STATEMENT AND INDEPENDENT
EXPERT'S REPORT**

**General Meeting to be held at London House, Conference Room, Ground Floor
216 St Georges Terrace, Perth on 4 September 2006 commencing at 10.30 am
(WST).**

This Notice of General Meeting, Explanatory Statement and Independent Expert's
Report should be read in its entirety.

If Shareholders are in doubt as to how to vote, they should seek advice from their
accountant, solicitor or other professional adviser without delay.

4 August 2006

Dear Shareholder

On 26 May 2006, the Company announced that it entered into arrangements with Leadenhall Australia Ltd (Leadenhall) to facilitate the raising of funds required as working capital in order to fund:

- the initial product manufacturing costs from a range of expected purchase orders resulting from the marketing and distribution arrangements with various distributors; and
- additional product development.

The fund raising was proposed to be undertaken by way of:

- A 1 for 4 non-renounceable pro rata underwritten rights issue to all existing shareholders to raise \$454,348 at an issue price of 6 cents per share.
- The provision (subject to Shareholders approval) by Noble Investments Pty Ltd of up to \$800,000 of Convertible Notes.

The issue resulted in a shortfall of 5,907,090 shares representing a subscription by the underwriter of \$354,425.

To facilitate the issue of the Convertible Notes, on 2 August 2006 the Company executed a Convertible Note Deed with Noble Investments Pty Ltd. Implementation of the Convertible Note Deed and the issue of the Convertible Notes is subject to Shareholder approval.

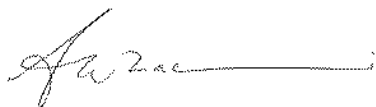
Accordingly, this Notice of Meeting and Explanatory Statement seeks shareholder approval. The terms of the proposed issue of Convertible Notes are summarised in the Explanatory Statement.

Enclosed is a Notice of General Meeting, Explanatory Statement, Independent Expert's Report and Proxy Form, dealing with all the Resolutions that the Directors are asking you to consider ahead of the General Meeting of Shareholders at which those Resolutions will be put to you, on 4 September 2006. The purpose of the General Meeting is to obtain Shareholder approval to implement the terms of the Convertible Note Deed.

I strongly recommend you carefully read the Notice of General Meeting, Explanatory Statement, and Independent Expert's Report in relation to the Resolutions for the proposed issue of Convertible Notes. In particular, I refer you to the report prepared by the Independent Expert "Pendragon Capital" who has concluded that the proposed issue of Convertible Notes is fair and reasonable to the non-associated shareholders of the Company.

The Board of Brainytoys Limited unanimously recommends that Shareholders vote in favour of each Resolution set out in the enclosed Notice of General Meeting.

Yours sincerely

A handwritten signature in black ink, appearing to read 'C Mackinnon', followed by a horizontal line.

CHARLES MACKINNON
CHAIRMAN

NOTICE OF GENERAL MEETING

Notice is given that a General Meeting of Shareholders of Brainytoys Limited will be held at London House, Conference Room, Ground Floor, 216 St Georges Terrace, Perth on 4 September, 2006 commencing at 10.30 am (WST).

SPECIAL BUSINESS

1 Issue of Convertible Notes to Noble

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

"Subject to the passing of Resolution 2, that in accordance with Item 7 of Section 611 of the Corporations Act and for all other purposes, the Company be authorised to issue the following Convertible Notes to Noble:

- (a) 1 Convertible Note issued at \$100,000 and being convertible to 1,666,667 Shares at \$0.06 per share;
- (b) 7 Convertible Notes issued at \$100,000 and each being convertible to that number of Shares that is equal to the drawn down Face Value of each such Convertible Note divided by the higher of the following:
 - (i) \$0.05 per Share; or
 - (ii) the three month volume weighted average price of the Company's Shares, as traded on ASX and discounted by 20%,

and which Convertible Notes shall otherwise be issued for the purpose and on the terms and conditions as set out in the Explanatory Statement."

Voting Exclusion Statement

For the purposes of Item 7 of Section 611 of the Corporations Act, the Company will disregard any votes cast of this resolution by Noble or any of its Associates, unless the vote is cast:

- by a person as a proxy for a person entitled to vote, in accordance with the directions on the proxy form; or
- by a person chairing a meeting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

2 Issue of Shares to Noble

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

“Subject to the passing of Resolution 1, that in accordance with Item 7 of Section 611 of the Corporations Act and for all other purposes, the Company be authorised to issue 800,000 Shares to Noble pursuant to the Convertible Note Deed, and for the purpose and on the terms and conditions as set out in the Explanatory Statement”.

Voting Exclusion Statement

For the purposes of Item 7 of Section 611 of the Corporations Act, the Company will disregard any votes cast of this resolution by Noble or any of its Associates, unless the vote is cast:

- by a person as a proxy for a person entitled to vote, in accordance with the directions on the proxy form; or
- by a person chairing a meeting as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form to vote as the proxy decides.

Explanatory Statement

The accompanying Explanatory Statement forms part of this Notice of General Meeting and should be read in conjunction with it.

Shareholders are specifically referred to the Glossary in the Explanatory Statement which contains definitions of capitalised terms used in this Notice of General Meeting and the Explanatory Statement.

Proxies

Please note that:

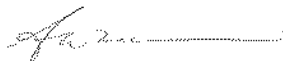
- (a) a Shareholder entitled to attend and vote at the General Meeting is entitled to appoint a proxy;
- (b) a proxy need not be a member of the Company;
- (c) a Shareholder may appoint a body corporate or an individual as its proxy;
- (d) a body corporate appointed as a Shareholder's proxy may appoint an individual as its representative to exercise any of the powers that the body may exercise as the Shareholder's proxy; and
- (e) Shareholders entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

The enclosed proxy form provides further details on appointing proxies and lodging proxy forms. If a Shareholder appoints a body corporate as its proxy and the body corporate wishes to appoint an individual as its representative, the body corporate should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative. The authority may be sent to the Company or its share registry in advance of the General Meeting or handed in at the General Meeting when registering as a corporate representative.

Voting Entitlements

In accordance with Regulations 7.11.37 and 7.11.38 of the Corporations Regulations 2001, the Board has determined that a person's entitlement to vote at the General Meeting will be the entitlement of that person set out in the register of Shareholders as at 5.00 pm (WST) on 2 September 2006. Accordingly, transactions registered after that time will be disregarded in determining Shareholder's entitlement to attend and vote at the General Meeting.

By Order of the Board of Directors



Charles Mackinnon

Director
Brainytoys Limited
4 August 2006

Explanatory Statement

1. Introduction

This Explanatory Statement has been prepared for the information of Shareholders in relation to the business to be conducted at the Company's General Meeting.

The purpose of this Explanatory Statement is to provide Shareholders with all information known to the Company which is material to a decision on how to vote on the Resolutions in the accompanying Notice of General Meeting.

The Resolutions in this Notice of General Meeting are conditional on the passing of each other Resolution so that those Resolutions will not have any effect unless both the Resolutions are passed.

This Explanatory Statement should be read in conjunction with the Notice of General Meeting. Capitalised terms in this Explanatory Statement are defined in the Glossary.

2. Background

On 26 May 2006, the Company announced that (subject to obtaining Shareholder approval) it proposed to issue eight (8) Convertible Notes to be issued at \$100,000 each to Noble.

On 2 August 2006 Noble and the Company executed a Convertible Note Deed (which is subject to Shareholder approval) for the issue of eight Convertible Notes and the issue of 800,000 Shares to Noble.

The following is a summary of the key terms and conditions of the Convertible Note Deed:

- (a) The Company will issue 8 Convertible Notes for a maximum aggregate amount of \$800,000 on the Series Issue Date. The First Note will be issued for an amount of \$100,000. The Subsequent Notes will be issued at a maximum amount of \$100,000 each, but will only be drawn down (whether in part or in full) at the election of the Company in accordance with paragraph (c) below.
- (b) The First Note is convertible at a conversion price of 6 cents per Share equating to 1,666,667 Shares on or before the Maturity Date.
- (c) The 7 Subsequent Notes may only be drawn down if and when the Company:
 - (i) sends a Convertible Note Certificate to Noble in respect of a Subsequent Note, at any time on or before the Maturity Date, stating the amount the Company wishes to draw down (subject to a

maximum of \$100,000) in respect of the relevant Subsequent Note;
and

- (ii) executes a Deed of Charge in relation to the relevant Subsequent Note and servicing such amount as is specified in the relevant Convertible Note Certificate.
- (d) The Subsequent Notes are each convertible into that number of Shares equal to the Face Value of the relevant Subsequent Note divided by the higher of:
- (i) \$0.05 per Share; or
 - (ii) the three month volume weighted average price of the Company's Shares, as traded on ASX and discounted by 20%.

The maximum number of Shares that may be issued if all Subsequent Notes are drawn down in full is 14,000,000 Shares.

- (e) Interest accrues and is payable by the Company in respect of each Convertible Note at a rate of 10% per annum payable quarterly in arrears. However, interest will cease to accrue and be payable in respect of any Convertible Note on and from the date such Convertible Note is converted or redeemed.
- (f) Noble may at its absolute discretion elect to convert each or any of the Convertible Notes to Shares at any time at the discretion of Noble on or before the Maturity Date.
- (g) Each of the Convertible Notes are redeemable by Noble on the occurrence of any redemption event and are redeemable at the Face Value of each Note. A redemption event includes:
- (i) default by the Company of its obligations to make interest payments;
 - (ii) default by the Company of any bank debt or any finance facility;
 - (iii) the occurrence of an event of default which includes any order made for the winding up, dissolution or administration of the Company, the Company entering into an arrangement, compromise, composition with or assignment for the benefit of creditors of the Company, the Company ceasing or suspending the conduct of all or a substantial part of its business or disposing of all or a substantial part of its assets; or
 - (iv) on any of the events of default under the Deed of Charge.
- (h) If Noble does not convert all or any of the Convertible Notes on or before the Maturity Date, the Company must redeem all outstanding Convertible Notes on the Maturity Date in cash and at their respective Face Value.

- (i) Shares issued pursuant to the terms of the Convertible Notes will rank equally in all respects with all existing Shares.
- (j) In consideration of the issue of the 8 Convertible Notes to Noble the Company will pay to Noble a fee of 6% of the maximum aggregate value of the Convertible Notes (being \$800,000) by way of the issue of 800,000 Shares to Noble at a nominal value of \$0.06 each.
- (k) The Shares referred to in paragraph (j) above shall be issued to Noble irrespective of whether the Company draws down upon all or any of the Subsequent Notes.
- (l) All shares will be admitted for quotation on ASX within 10 business days of allotment.

3. General Meeting Resolutions

3.1 RESOLUTION 1 - ISSUE OF CONVERTIBLE NOTES

Resolution 1 is an ordinary resolution and provides for the issue of 8 Convertible Notes to Noble on the terms and conditions set out in Section 2 of this Explanatory Statement.

The issue of the Convertible Notes is to be approved by Shareholders under Item 7 of section 611 of the Corporations Act, as detailed in Section 4.2 of this Explanatory Statement.

The issue of the Convertible Notes pursuant to the Convertible Note Deed is subject to Shareholders passing Resolutions 1 and 2. The funds raised from the issue of the Convertible Notes will be used for the purpose of meeting the initial product manufacturing costs from a range of expected purchase orders resulting from the marketing and distribution arrangements with various distributors, and for additional product development.

3.2 RESOLUTION 2 - ISSUE OF SHARES TO NOBLE

Resolution 2 is an ordinary resolution and provides for the payment of 6% of the maximum aggregate value of the Convertible Notes (being \$800,000) by way of the issue of 800,000 Shares to Noble at the Series Issue Date at a nominal value of \$0.06 per Share.

Under the Convertible Note Deed a fee is to be paid to Noble in consideration for Noble entering into the Convertible Note Deed irrespective of whether the Convertible Notes are drawn down or not.

The Shares referred to in Resolution 2 will rank equally in all respects with existing Shares. The issue of the Convertible Notes is to be approved by Shareholders under Item 7 of section 611 of the Corporations Act, as noted in Section 4.2 of this Explanatory Statement.

The issue of the Shares to Noble pursuant to the Convertible Note Deed is subject to Shareholders passing Resolutions 1 and 2.

No funds will be raised from the issue of the Shares under Resolution 2.

4. Regulatory Requirements

4.1 LISTING RULE 7.1

Approval of the issue of the Shares and the Convertible Notes to Noble under Resolutions 1 and 2 is not required for the purposes of ASX Listing Rule 7.1 (which limits the amount of securities a listed company may issue without shareholder approval) because of Exception 16 of Listing Rule 7.2.

4.2 SECTION 611 OF THE CORPORATIONS ACT 2001

Resolutions 1 and 2 seek Shareholder approval under Item 7 of section 611 of the Corporations Act for:

- (a) the acquisition by Noble of a relevant interest in Shares upon conversion of the Convertible Notes; and
- (b) the acquisition by Noble of a relevant interest in the specified number of Shares.

Except as provided by Chapter 6 of the Corporations Act, section 606(1) of the Corporations Act prohibits a person from acquiring shares in a company if, after acquisition, that person or any other person would have a relevant interest or voting power in excess of 20% of the voting shares in the Company.

Item 7 of section 611 of the Corporations Act provides that section 606(1) of the Corporations Act does not apply to an acquisition of a relevant interest in the voting shares in a company if the company has agreed to the acquisition by resolution passed at a general meeting at which no votes are cast in relation to the resolution by the person to whom the shares are to be issued or by an associate of that person.

Under section 610 of the Corporations Act, a person's voting power is defined as the percentage of the total voting shares in the Company held by the person and the person's associates.

The Convertible Notes and the 800,000 Shares to be issued to Noble under Resolutions 1 and 2 will result in Noble and its Associates having a relevant interest in an aggregate of more than 20% of the voting Shares in the Company.

Accordingly the Company is seeking Shareholder approval under Item 7 of Section 611 of the Corporations Act for the issue of the Convertible Notes and the 800,000 Shares to Noble.

As set out in the Voting Exclusion Statements in the Notice of General Meeting, Noble and its Associates are precluded from voting on Resolutions 1 and 2.

4.2.1 ASIC Policy Statement 74

The following information is included in accordance with the requirements of Item 7 of Section 611 of the Corporations Act and ASIC Policy Statement 74 to the extent it applies pursuant to ASIC Policy Statement 159.

1. *Identity of the Person who will hold a relevant interest in the securities to be issued.*

If Resolutions 1 and 2 are passed, the following new Shares are proposed to be issued to Noble.

Noble	Maximum Shares to be issued
<u>UResolution 1</u>	
First Note*	1,666,667
Subsequent Notes*	14,000,000
<u>Resolution 2</u>	
Fee	800,000
TOTAL	16,466.667

*Note: the maximum number of Shares to be issued under the Convertible Notes is based on the assumption that the Company will draw down (to the maximum value) all of the Subsequent Notes and that Noble will elect to convert all of the Convertible Notes on or before the Maturity Date and at the maximum conversion rate under the terms of the Convertible Note Deed.

2. *Impact of the Transactions on the Voting Power in the Company's Shares*

(a) The Company's capital structure

The capital structure of the Company before the passing of Resolutions 1 and 2 will consist of approximately 38,316,491 Shares of which Noble and its Associates will hold 7,251,438 Shares.

If all of the Subsequent Notes are drawn down to the maximum aggregate value and are all fully converted into Shares (at the maximum conversion rate), the capital structure of the Company will consist of approximately 54,783,158 Shares of which Noble and its Associates will hold 23,718,105 Shares.

(b) Current voting power of Noble

As at the date of the Notice of General Meeting, Noble and its Associates have a relevant interest in Shares in the Company and their voting power is 18.93%

(c) Maximum voting power of Noble and its Associates after the conversion of all of the Convertible Notes into Shares and the issue of 800,000 Shares

The maximum voting power of Noble and its Associates should Noble convert all of the Convertible Notes into the maximum number of Shares under Resolution 1 and upon the issue of the Shares under Resolution 2 and all other Shares in which Noble and its Associates have a relevant interest, expressed as a percentage of the total number of votes attached to all the issued voting Shares in the capital of the Company, will be as follows:

Noble and Associates	Number of Shares in which have a relevant interest	% voting power
Interest before General Meeting	7,251,438	18.93
Fee	800,000	20.58
First Note fully converted	1,666,667	23.82
All Subsequent Notes fully converted	14,000,000	43.29
Total	23,718,105	43.29

(d) Voting power of Noble and its Associates should Noble elect to only convert the First Note into Shares

The voting power of Noble and its Associates, if Noble only converts the First Note into Shares under Resolution 1 and the Shares under Resolution 2 are issued, will be as follows:

	Number of Shares which have a relevant interest	% voting power
Interest before General Meeting	7,251,438	18.93
Fee	800,000	20.58
First Note converted	1,666,667	23.82
Total	9,718,105	23.82

(e) Voting power of Noble and its Associates should Noble not elect to convert any Convertible Notes into Shares

The voting power of Noble and its Associates, should Noble not convert any of the Convertible Notes into Shares under Resolution 1 but the Company issues the Shares under Resolution 2, will be as follows:

	Number of Shares which have a relevant interest	% voting power
Fee	800,000	20.58

Interest before General Meeting	7,251,438	18.93
Total	8,051,438	20.58

(f) Range of relevant interests and voting power of Noble and its Associates

The following table sets out the minimum and maximum numbers of Shares in which Noble and its Associates will have a relevant interest (if the Subsequent Notes are all drawn down to the maximum aggregate value and are all converted at the maximum conversion rate) and their minimum and maximum voting power as a result of the implementation of Resolutions 1 and 2.

	Minimum and Maximum number of Shares in which have a relevant interest	Minimum and maximum % voting power
Noble and its Associates	8,051,438 - 23,718,105	20.58 - 43.29

These numbers and percentages assume that the Company does not issue any other Shares to any person.

3 *Intentions as to the Future of the Company*

The Company is advised that Noble has no:

- (a) intention to change the business of the Company or future employment of present employees.
- (b) intention to inject further capital into the Company beyond what is contemplated in the Convertible Note Deed.
- (c) plans to transfer assets between the Company itself or any person associated with them or any intention to otherwise re-deploy the fixed assets of the Company.
- (d) plans to change significantly the financial or dividend policies of the Company.

4. *Reasons for the Proposed Allotment*

The maximum aggregate funds raised from the issue of the Convertible Notes, (assuming all of the Subsequent Notes are drawn down to their maximum aggregate value) will, be applied to fund the initial product manufacturing against a range of expected purchase orders and for additional product development expenditure. In the meantime, it represents a standby secured note facility with equity conversion rights available for use by the Company.

Directors' Recommendation

All of the Directors recommend that the Shareholders vote in favour of the Resolutions contemplated in the Notice of General Meeting.

Financial and Dividend Policy

There is no immediate intention to change the financial or dividend policies of the Company.

Proposal is fair and reasonable

The Directors have commissioned Pendragon Capital (a suitably qualified independent expert) to prepare a report on whether the proposed issue of the Convertible Notes and Shares under Resolutions 1 and 2 is fair and reasonable to the non-associated Shareholders of the Company. That report is attached to this Explanatory Memorandum. Shareholders are urged to read that report in detail.

Pendragon Capital has concluded that the proposed issue of the Convertible Notes and Shares under Resolutions 1 and 2 is fair and reasonable to the non-associated Shareholders of the Company.

5. Advantages and Disadvantages of the Issue

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 proposed resolutions:

(a) Advantages

(i) Flexible Facility

Other than for the first note draw down of \$100,000 there is no requirement or compulsion for the Company to draw down the remaining notes.

The election by the Company to draw down the remainder is entirely at its option. Accordingly, the issue of Convertible Notes to Noble represents a very flexible facility package for the Company.

(ii) Further Notes May Not be Drawn

The Directors of the Company are encouraged as to the business prospects for the Company, which if realised and reflected in the market rating for the Company's shares will improve the capital raising pricing and options available to the Company particularly in the United States market. In these circumstances the Company may elect to raise ordinary share capital in the United States rather than draw down further notes. In the meantime it represents an attractive flexible alternative source of capital.

In addition, if the Company's products are well received in the market it should result in significant cash flow positive trading, again removing the need to draw down further notes.

(iii) Conversion Terms Market Related

If the Subsequent Notes are drawn down to their maximum value, the terms of conversion to Shares will be the higher of \$0.05 each or the 3 month volume weighted price of the Shares as traded on ASX and discounted by 20%. Accordingly, the dilution of equity effect for existing Shareholders would not be appreciably different to what may arise pursuant to a market placement or other form of capital raising at some future time.

(iv) Brainytoys able to Confidently Complete Initial Business Plan

The availability of the substantial facility enables the Company and its management to operate with confidence in initiating completion of its final product development, marketing, and distribution programme without compromises that undermine the intended strategies.

(v) Existing Shareholders Not Required to Provide Further Capital

The shortfall arising from the recent 1 for 4 rights issue clearly demonstrates lack of interest from the Shareholder base in further funding. This flexible facility avoids the need to ask Shareholders to contribute further capital.

(b) Disadvantages and Risks

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 proposed Resolutions.

(i) Possible Transfer of Control to Noble

The Convertible Notes and the Shares to be issued to Noble may result in Noble and/or its Associates obtaining a controlling interest of up to 43.29% of the Company's share capital assuming full conversion at the maximum conversion rate per Share.

(ii) Issue of Secured Notes

Given the lack of recurrent cash flow today it is obviously desirable for the Company to fund its business plan without resorting to secured borrowings.

Notwithstanding this, the Convertible Notes have a 4 year term and are likely to be converted to Shares assuming they are drawn down to their maximum aggregate value.

6. Risks

No Equal Opportunity to Participate in the Notes Issue

Shareholders are not being afforded an equal opportunity to participate in the Convertible Note issue. However, in light of the poor participation result arising out

of the recent rights issue it is reasonable to conclude that there is a limited appetite for participation in such an issue.

Risk of Draw Down Option Notice being Dishonored

Noble is not required to deposit the Convertible Note monies that may be the subject of a Convertible Note Certificate. However, the Directors have made reasonable enquiries to seek satisfaction in relation to its *bona fides* and financial capacity to honour the arrangements.

7. *Independent Expert's Report*

The Independent Expert's Report sets out a detailed examination of the proposed issue of Convertible Notes and Shares to Noble contemplated by Resolutions 1 and 2 to enable Shareholders to assess the merits of and decide whether to approve, those Resolutions. To the extent appropriate, the Independent Expert's Report sets out further information with respect to the proposed Noble transaction and concludes that the issue of the Convertible Notes and Shares to Noble is fair and reasonable to the non-associated shareholders of the Company.

Shareholders are urged to carefully read the Independent Expert's Report attached to the Schedule to understand the scope of the report, the methodology of the valuation and the sources of information used and assumptions made in preparing the report.

Glossary

In this Explanatory Statement, the following terms have the following meaning unless the context otherwise requires:

ASIC	Australian Securities and Investments Commission.
Associates	has the meaning set out in Sections 11-17 of the Corporations Act.
ASX	Australian Stock Exchange Limited ACN 006 624 691
Board	board of Directors.
Company	Brainytoys Limited ACN 001 894 033.
Constitution	Constitution of the Company.
Convertible Notes	the First Note and the Subsequent Notes issued to Noble on the terms and conditions set out in the Convertible Note Deed and summarised in the Explanatory Statement.
Convertible Note Certificate	the certificate set out in Schedule 3 of the Convertible Note Deed.
Convertible Note Deed	The Convertible Note Deed dated 2 August 2006 between the Company and Noble.
Corporations Act	Corporations Act 2001 (Cth).
Deed of Charge	the Deed of Charge to be entered into by the Company and Noble in respect of each Convertible Note attached as Schedule 4 to the Convertible Note Deed.
Director	director of the Company.
Explanatory Statement	the explanatory statement accompanying this Notice of General Meeting.
Face Value	in relation to the First Note means \$100,000 and in relation to each Subsequent Note means the relevant drawn down value amount specified in the relevant Convertible Note Certificate.

Fee	the issue of 800,000 Shares by the Company to Noble in consideration for Noble executing the Convertible Note Deed.
First Note	the first Convertible Note to be issued by the Company at \$100,000 and convertible into Shares issued at 6 cents per Share;
General Meeting	general meeting of Shareholders convened for the purpose of considering the Resolutions.
Noble	Noble Investments Pty Ltd ACN 007 998 914.
Maturity Date	30 June 2010 on which date all Convertible Notes must be converted into Shares or redeemed or if the Convertible Note is not drawn down by this date they will expire.
Notice of Meeting	the notice of General Meeting accompanying this Explanatory Statement.
Pendragon Capital	Pendragon Capital Limited ACN 008 963 755.
Resolution(s)	the resolutions contained in this Notice of General Meeting.
Series Issue Date	the day after the date on which Shareholders approve the Resolutions contained in this Notice of General Meeting.
Share	fully paid ordinary share in the capital of the Company.
Shareholder	shareholder of the Company.
Subsequent Notes	the remaining seven Notes to be issued by the Company at \$100,000 and convertible into Shares on the terms and conditions set out in the Convertible Note Deed and summarised in the Explanatory Statement.
WST	Western Standard Time in Australia.



Brainytoys Limited ACN 001 894 033

Proxy Form

Shareholder Details

Name:

Address:

Contact Telephone No:

Contact Name (if different from above):

Appointment of Proxy

I/We being a shareholder/s of Brainytoys Limited and entitled to attend and vote hereby appoint the following proxy/proxies to attend and act on my/our behalf and to vote in accordance with my/our following directions at the General Meeting of Brainytoys Limited to be held at London House, Conference Room Ground Floor, 216 St Georges Terrace, Perth on 4 September 2006 at 10.30 am (WST) and at any adjournment of that meeting.

☐

The Chairman
of the meeting

(mark with an 'X')

OR

IMPORTANT:

If the Chairman of the meeting is your proxy, or if appointed your proxy by default and you do **not** wish to direct him/her how to vote on any of these resolutions, you must mark this box with an "X". By marking this box, you acknowledge that the Chairman of the meeting may exercise your proxy on those resolutions (for which you have not given a direction) even if he/she has an interest in the outcome of the resolution and that votes cast by him/her, other than as proxy holder, will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote on any of these resolutions, the Chairman of the meeting will not cast your votes on the resolutions (for which you have not given a direction) on a show of hands or on a poll. The Chairman of the meeting intends to vote undirected proxies in favour of each resolution.

If the person you are appointing as your proxy is someone other than the Chairman of the meeting:
Write the name of that person in the box below.

 %

You must specify the % of your votes that you authorise your proxy to exercise if:

If you hold 2 or more Shares in Brainytoys Ltd you may appoint a second proxy:

Write the name of your second proxy in the box below.

 %

- (a) you have only appointed 1 proxy and do not want him/her to exercise all of your votes; or
(b) if you have appointed 2 proxies under this proxy form.

If you do not name a proxy or your named proxy fails to attend the meeting, the Chairman of the meeting will be appointed as your proxy to attend and act on your behalf and to vote in accordance with the following directions at the General Meeting of Brainytoys Limited to be held at London House, Conference Room Ground Floor, 216 St Georges Terrace, Perth on 4 September 2006 at 10.30 am (WST) and at any adjournment of that meeting.

Voting directions to your proxy - Please mark only one of the boxes with an "X" for each resolution to indicate your directions.

Special Business

Resolution 1. Issue of Convertible Notes to Noble

For

Against

Abstain

☐
☐
☐

Resolution 2 Issue of Shares to Noble

☐
☐
☐

1 If you mark the "Abstain" box with an "x" for a particular resolution, you are directing your proxy not to vote on your behalf on a show of hands or on a poll.

PLEASE SIGN HERE

implemented

This section *must* be signed in accordance with the instructions overleaf to enable your directions to be

Individual or Shareholder 1

Sole Director and
Sole Company Secretary

Shareholder 2

Director

Shareholder 3

Director/Company Secretary

How to complete this Proxy Form

1 Your Name and Address

Please print your name and address as it appears on your holding statement and the Company's share register. If Shares are jointly held, please ensure the name and address of each joint shareholder is indicated. Shareholders should advise the Company of any changes. Shareholders sponsored by a broker should advise their broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the Company.

3 Votes on Resolutions

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each Resolution. All your shareholding will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any Resolution 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 a given Resolution, your proxy may vote as he or she chooses. If you mark more than one box on a Resolution your vote on that Resolution will be invalid.

4 Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy please write the name of that person.

To appoint a second proxy you must state (in the appropriate box) the percentage of your voting rights which are the subject of the relevant proxy. If the Proxy Form does not specify a percentage, each proxy may exercise half your votes. Fractions of votes will be disregarded.

5 Signing Instructions

You must sign this form as follows in the spaces provided:

Individual:	where the holding is in one name, the holder must sign.
Joint Holding:	where the holding is in more than one name, all of the shareholders should sign.
Power of Attorney:	to sign under Power of Attorney, you must have already lodged this document with the Company's share registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies:	where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of the corporation is to attend the meeting a "Certificate of Appointment of Corporate Representative" should be produced prior to admission.

6 Lodgment of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at the address given below not later than 48 hours before the commencement of the meeting. ie. no later than 10.30 am (WST) on 2 September 2006. Any Proxy Form received after that time will not be valid for the scheduled meeting.

This Proxy Form (and any Power of Attorney and/or second Proxy Form) may be sent or delivered to the Company's office at 6B Bowen Street O'Connor WA 6163 or sent by facsimile to the Company's office on (08) 9331 8452.