BRAINYTOYS LIMITED

ABN 28 001 894 033

PRO-RATA RENOUNCEABLE ENTITLEMENT ISSUE PROSPECTUS

For a fully underwritten, pro-rata renounceable entitlement issue of approximately 14,610,411 Shares on the basis of one (1) Share for every three (3) Participating Securities held at an issue price of 8.5 cents per Share to raise approximately $1,241,885 (**Entitlement Issue**).

Underwriter

Patersons Securities Limited
ABN 69 008 896 311
AFSL No. 239 052

IMPORTANT NOTICE

This document is important and should be read in its entirety. If after reading this Prospectus you have any questions about the securities being offered under this Prospectus or any other matter, then you should consult your stockbroker, accountant or other professional adviser.

The securities offered by this Prospectus should be considered as speculative.

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1. SUMMARY OF IMPORTANT DATES AND IMPORTANT NOTES

TIMETABLE AND IMPORTANT DATES

Lodgement of Prospectus with ASIC	30 March 2007
Notice sent to Shareholders	2 April 2007
Ex Date – rights trading commences	4 April 2007
Record Date for determining Entitlements	12 April 2007
Prospectus despatched	13 April 2007
Entitlements trading ceases	20 April 2007
Closing Date of Offer	30 April 2007
Despatch date/Shares entered into shareholders security holdings	8 May 2007

* These dates are determined based upon the current expectations of the Directors and may be changed without notice.

IMPORTANT NOTES

Shareholders should read this document in its entirety and, if in doubt, should consult their professional advisors.

This Prospectus is dated 30 March 2007 and a copy of this Prospectus was lodged with the ASIC on that date. The ASIC and ASX take no responsibility for the content of this Prospectus.

The expiry date of the Prospectus is 13 months after it was lodged with the ASIC (**Expiry Date**). No securities will be allotted or issued on the basis of this Prospectus after the Expiry Date.

Applications for Shares offered pursuant to this Prospectus can only be submitted on an original Entitlement and Acceptance Form which accompanies this Prospectus.

No person is authorised to give information or to make any representation in connection with this Prospectus which is not contained in the Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with this Prospectus.

In making representations in this Prospectus regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

ELECTRONIC PROSPECTUS

Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian or New Zealand resident and must only access the Prospectus from within Australia or New Zealand.

The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

2. CORPORATE DIRECTORY

Directors

Mr Alexander Aguero

Mr Charles MacKinnon

Mr Graham Nicol

Share Registry*

Computershare Investor Services Pty Limited
Level 2, Reserve Bank Building
45 St Georges Terrace
PERTH WA 6000

Telephone: 1300 787 575
Facsimile: (08) 9323 2033

Company Secretary

Mr Graham Nicol

Solicitors to the Company

Steinepreis Paganin
Lawyers and Consultants
Level 4, Next Building
16 Milligan Street
PERTH WA 6000

Registered Office

6B Bowen Street
O'CONNOR WA 6163

Telephone: (08) 9331 8441
Facsimile: (08) 9331 8452

Auditor*

BDO Chartered Accountants and Advisors
Level 8
256 St Georges Terrace
Perth WA 6000

Lead Manager and Underwriter

Patersons Securities Limited
Level 23
2 The Esplanade
PERTH WA 6000

Telephone: (08) 9263 1111
Facsimile: (08) 9325 6452

* These parties are included for information purposes only. They have not been involved in the preparation of this Prospectus.

3. CHAIRMAN'S LETTER

Dear Shareholder,

This Prospectus pertains to a renounceable entitlement issue to raise around $1,241,885 before expenses.

Shareholders will be entitled to subscribe for one new Share at a price of 8.5 cents each for every three Shares held at the record date and Convertible Note holders will be entitled to participate in the issue as though all outstanding Convertible Notes had been converted to Shares.

The Issue is fully underwritten by Patersons Securities Limited.

Details of the Issue are contained in this Prospectus. Also contained in this Prospectus is relevant information on the Company including the intended use of the funds being raised.

I recommend you read the Prospectus in full before making a decision to apply for Shares.

On behalf of the Board, I invite you to take up your entitlement. Should you not wish to retain your entitlement, kindly note that as the issue is renounceable, you have the opportunity to sell some or all of your rights on market.

Yours Sincerely,

Charles MacKinnon
Chairman

4. DETAILS OF THE OFFER

4.1 Offer of Shares

The Offer is being made as a pro-rata renounceable rights issue of approximately 14,610,411 Shares on the basis of one (1) Share for every three (3) Participating Securities held on the Record Date at an issue price of 8.5 cents per Share to raise approximately $1,241,885.

The Company has 40,241,491 Shares on issue at the date of this Prospectus.

The Company also has Convertible Notes on issue and whilst the Convertible Notes are outstanding the holder has the right to participate in share issues as though all outstanding Convertible Notes had been converted to ordinary shares. The Company has outstanding Convertible Notes which are equivalent to the Convertible note holder being the registered holder of 3,589,743 Shares for the purpose of this Issue.

Based on the capital structure of the Company (and assuming no existing Options are exercised prior to the Record Date), the maximum number of Shares to be issued pursuant to this Offer is 14,610,411 (13,413,830 Shares to Shareholders and 1,196,581 Shares to the Convertible Note holder). The purpose of the Offer and the use of funds raised are set out in Section 5 of this Prospectus.

At the date of this Prospectus the Company has 10,954,409 Options on issue. The terms and conditions of the Options do not allow for the participation by those Option holders in new issues of securities. Those Option holders will, however, be entitled to exercise their Options during the time period set out in the ASX Listing Rules in order to participate in the Offer. Accordingly, if Option holders exercise their Options prior to the Record Date, the number of Shares issued pursuant to this Prospectus may increase. In the event any of these Options are exercised and Shares are issued, the Entitlement resulting from the issue of these Shares is not underwritten.

In the calculation of any Entitlement, fractions will be rounded up to the nearest whole number.

4.2 Opening and Closing Dates

The Offer will open for receipt of acceptances on 13 April 2007 and close at 5.00pm (WST) on 30 April 2007 (unless varied) (**Closing Date**). Completed Entitlement and Acceptance Forms must be received at the Share Registry:

Computershare Investor Services Pty Limited
Level 2, Reserve Bank Building
45 St Georges Terrace
PERTH WA 6000,

by the Closing Date, together with a cheque or bank draft in Australian dollars for the total application monies.

The Entitlement is renounceable which enables Shareholders who do not wish to take up their Entitlement to sell or otherwise transfer all or part of their Entitlement. Trading in the Entitlements on ASX is expected to commence on 4 April 2007 and end on 20 April 2007.

4.3 Underwriter

The Company has entered into an Underwriting Agreement with the Underwriter to fully underwrite the Offer, subject to certain terms and conditions. The material terms of the Underwriting Agreement are set out in section 8.2 of this Prospectus.

4.4 Shortfall

The offer of the Shortfall is a separate offer pursuant to this Prospectus made to the Shareholders. The issue price of any Shares pursuant to the Shortfall Offer shall be 8.5 cents, being the price at which the Entitlement has been offered to Shareholders pursuant to this Prospectus. Neither the Underwriter nor the Directors can guarantee that any application to participate in the Shortfall Offer will be successful.

In relation to the Shortfall Offer the Underwriters have the right to require the Directors to accept or reject a Shortfall Application in whole or in part under the terms of the Underwriting Agreement. If the number of Shares allotted is fewer than the number applied for, surplus application monies will be refunded in full. Interest will not be paid on monies refunded.

4.5 How to Accept the Offer and Apply for Shortfall

(a) *If you wish to take up all of your Entitlement*

Please complete the Entitlement and Acceptance Form, which accompanies this Prospectus, in accordance with the instructions contained on the form. Forward your completed Entitlement and Acceptance Form, together with your cheque for the amount shown to reach the Share Registry by 5.00pm (WST) on 30 April 2007 or such later date as the Company advises.

(b) *If you wish to take up all of your Entitlement and apply for additional Shares*

Shareholders who have taken up their Entitlement may apply for additional Shares by completing the Shortfall Application Form which is attached to this Prospectus in accordance with the instructions in the Shortfall Application Form.

The completed Shortfall Application Form must be accompanied by a separate cheque or bank draft for the appropriate application monies to reach the Share Registry by 5.00pm (WST) on 30 April 2007.

(c) *If you wish to sell all of your Entitlement*

Complete the section marked "Instructions to Stockbroker" on the back of the Entitlement and Acceptance Form, which accompanies this Prospectus, in accordance with the instructions contained on the form and lodge it with your stockbroker.

Rights trading is expected to commence on 4 April 2007. Sale of your Entitlements must be completed by close of trading at 5.00pm (WST) on 20 April 2007 when Rights trading is expected to cease.

(d) *If you wish to take up part of your Entitlement and sell the balance*

Please complete the Entitlement and Acceptance Form, which accompanies this Prospectus, by inserting the number of Shares for which you wish to accept (being less than as specified on the Entitlement and Acceptance Form) and complete the section marked "Instructions to Stockbroker" on the back of the form in respect of that part of your Entitlement you wish to sell.

Forward the form to your stockbroker together with your cheque for the total amount payable in respect of the Shares accepted.

Rights trading is expected to commence on 4 April 2007. Sale of your Rights must be completed by the close of trading at 5.00pm (WST) on 20 April 2007 when Rights trading is expected to cease.

(e) *If you wish to transfer your Entitlement other than on ASX*

Forward a completed renunciation form (obtainable through your stockbroker or the Share Registry) together with your Entitlement and Acceptance Form to reach the Share Registry by 5.00pm (WST) on 30 April 2007 or such later date as the Company and Underwriters advise.

(f) *Entitlement not taken up*

If you decide not to accept all or part of your Entitlement, then your Entitlement will lapse.

Your Entitlement may have value. You are advised to deal with your Entitlement rather than allow them to lapse.

If you do not wish to take up any part of your Entitlement you are not required to take any action. The Company and the Underwriters will deal with the Shares in accordance with the Underwriting Agreement.

(g) *Lodgement and Payment*

Completed Entitlement and Acceptance Forms and cheques should be made payable to "Brainytoys Limited – Entitlement Offer Account" and crossed "**Not Negotiable**" and forwarded to:

Computershare Investor Services Pty Limited
Level 2, Reserve Bank Building
45 St Georges Terrace
PERTH WA 6000,

by 5.00pm (WST) on the Closing Date.

4.6 ASX Listing

Application for official quotation by ASX of the Shares the subject of the Offer and the Shortfall Offer will be made on the date of this Prospectus. If approval is not obtained from ASX before the expiration of 3 months after the date of issue of the Prospectus, (or such period as is varied by the ASIC), none of the Shares offered by this Prospectus will be allotted and issued and the Company will repay all application monies for the Shares within the time prescribed under the Corporations Act, without interest.

The fact that ASX may grant official quotation to the Shares offered pursuant to this Prospectus is not to be taken in any way as an indication of the merits of the Company or the Shares now offered for subscription.

Quotation, if granted, of the Shares offered by this Prospectus will commence as soon as practicable after statements of holdings for the Shares are dispatched.

4.7 Minimum Subscription

As outlined elsewhere, the Offer is fully underwritten. Therefore the minimum subscription in respect of the Offer is $1,241,885. No Shares will be allotted or issued by this Prospectus in respect of the Offer until the minimum subscription has been received. If the minimum subscription is not achieved within 4 months after the date of issue of this Prospectus, the Company will either repay the application monies received pursuant to the Offer to the applicants or issue a supplementary or replacement prospectus and allow applicants one month to withdraw their application and be repaid their application monies.

4.8 Allotment of Shares

Shares issued pursuant to the Offer will be allotted within 6 Business Days after the Closing Date.

Where the number of Shares allotted is less than the number applied for, or where no allotment is made, surplus application monies will be refunded without any interest to the applicant as soon as practicable after the Closing Date.

Pending the issue and allotment of the Shares or payment of refunds pursuant to this Prospectus, all application monies will be held by the Company in trust for the applicants in a separate bank account as required by the Corporations Act. The Company, however, will be entitled to retain all interest that accrues on such bank account and each applicant waives the right to claim any such interest.

4.9 Overseas Shareholders

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

It is not practicable for the Company to comply with the securities laws of overseas jurisdictions having regard to the number of overseas Shareholders, the number and value of Shares these Shareholders would be offered and the cost of complying with regulatory requirements in each relevant jurisdiction. Accordingly, the Offer is not being extended and Shares will not be issued to Shareholders with a registered address which is outside Australia or New Zealand (**Non-Qualifying Foreign Holders**).

Shareholders resident in New Zealand should consult their professional advisors as to whether any government or other consents are required, or other formalities need to be observed, to enable them to exercise their Entitlements under the Rights Issue.

Pursuant to Listing Rule 7.7 and section 615 of the Corporation Act, the Company will appoint a nominee approved by ASIC to sell the Non-Qualifying Foreign Holder's Entitlements (if there is a viable market for the Entitlements and a premium over the expenses of the sale can be obtained). The net proceeds of the sale of these Entitlements (after deducting the cost of the sale and the distribution of the proceeds) will then be forwarded as soon as practicable to the Non-Qualifying Foreign Holders.

Any such sale will be at such prices or otherwise in such a manner as the nominee may, in its absolute discretion, determine. Any interest earned on the proceeds of the sale of such Entitlements will be applied against costs and expenses first, with any balance accruing to the Company.

Neither the Company nor the nominee will be held liable for a failure to sell Entitlements or to sell Entitlements at any particular price. The proceeds of the sale will be distributed to the Non-Qualifying Foreign Holders for whose benefit the Entitlements have been sold in proportion to their shareholdings (after deducting the cost of the sale and the distribution of the proceeds).

If there is no viable market for the Entitlements of the Non-Qualifying Foreign Holders, their Entitlements will be allowed to lapse and form part of the Shortfall.

4.10 Taxation Implications

The Directors do not consider that it is appropriate to give potential applicants advice regarding the taxation consequences of applying for Shares under this Prospectus, as it is not possible to provide a comprehensive summary of the possible taxation positions of potential applicants. The Company, its advisers and officers, do not accept any responsibility or liability for any taxation consequences to potential applicants in the Offer. Potential applicants should, therefore, consult their own professional tax adviser in connection with the taxation implications of the Offers.

4.11 CHESS

The Company will not be issuing share certificates. The Company participates in CHESS, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHESS will be issuer sponsored by the Company. Because the sub-registers are electronic, ownership of securities can be transferred without having to rely upon paper documentation.

Electronic registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with a statement (similar to a bank account statement) that sets out the number of Shares allotted to them under this Prospectus. The notice will also advise holders of their Holder Identification Number (**HIN**) or Securityholder Reference Number (**SRN**) and explain, for future reference, the sale and purchase procedures under CHESS and issuer sponsorship.

Further monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month.

4.12 Privacy Act

If you complete an application for Shares, you will be providing personal information to the Company (directly or by the Company's share registry). The Company collects, holds, and will use that information to assess your application, service your needs as a Shareholder, facilitate distribution payments and corporate communications to you as a Shareholder and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Company share registry.

You can access, correct and update the personal information that we hold about you. Please contact the Company or its registry if you wish to do so at the relevant contact numbers set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (as amended), the Corporations Act and certain rules such as the ASTC Settlement Rules.

4.13 Enquiries

Any questions concerning the Offer should be directed to Ms Catherine Vann on (08) 9331 8441, Mr Charles MacKinnon on (08) 9368 6997, or to:

Brainytoys Limited

6B Bowen Street
O'Connor WA 6163

Telephone: (08) 9331 8441
Facsimile: (08) 9331 8452

5 PURPOSE AND EFFECT OF THE OFFER

5.1 Purpose of the Offer

The purpose of the Offer is to raise approximately $1,241,885. It is planned to use the proceeds of the Offer in accordance with the table set out below:

Item of Expenditure	**Dollar Amount ($m)**
Production moulds and tooling	400,000
Production of advertisements	50,000
Additional merchandise licenses	50,000
Toy Fairs Exhibits	100,000
Working capital and contingency	546,885
Expenses of the Offer	95,000
Total	**$1,241,885**

5.2 Effect of the Offer and Pro Forma Balance Sheet

The principal effect of the Offer on the Company will be to:

(a) increase cash reserves by approximately $1,146,000 immediately after completion of the Offer and payment of the estimated expenses of the Offer; and

(b) increase the number of Shares on issue from 40,241,491 Shares as at the date of the Prospectus to 54,851,902 Shares, assuming all Shares offered under this Prospectus are issued.

Set out below is an unaudited pro forma Statement of Financial Position for the Company as at 31 December 2006 incorporating the effect of the Offer assuming the Offer is fully subscribed.

5.3 Pro Forma Unaudited Consolidated Statement of Financial Position as at 31 December 2006

The Adjusted Balance sheet as at 31 December 2006 (audit reviewed) and Pro Forma Balance Sheet as at 31 December 2006 (unaudited) shown on the following page have been prepared on the basis of the accounting policies normally adopted by the Consolidated Entity and reflect the changes to its financial position, assuming that all the Shares are issued by the Closing Date. They have been prepared on the assumption that the Offer is fully subscribed.

The statements have been prepared to provide shareholders with information on the assets and liabilities of the Company and pro-forma assets and liabilities of the Company as noted below. The historical and pro-forma financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

	Audit reviewed Adjusted Balance Sheet at 31 December 2006 (Consolidated)	Unaudited Pro Forma Balance Sheet at 31 December 2006 (Consolidated)
	$	$
CURRENT ASSETS		
Cash and cash equivalents	103,586	1,250,471
Trade and other receivables	181,379	181,379
Financial assets	40,000	40,000
TOTAL CURRENT ASSETS	324,965	1,471,850
NON-CURRENT ASSETS		
Property, Plant and equipment	139,216	139,216
Patents and Trademarks	7,917	7,917
Intellectual Property	-	-
TOTAL NON-CURRENT ASSETS	147,133	147,133
TOTAL ASSETS	472,098	1,618,983
CURRENT LIABILITIES		
Trade and other payables	152,462	152,462
Short term borrowings	103,014	103,014
TOTAL CURRENT LIABILITIES	255,476	255,476
NON-CURRENT LIABILITIES	-	-
TOTAL NON-CURRENT LIABILITIES	-	-
TOTAL LIABILITIES	255,476	255,476
NET ASSETS	216,622	1,363,507
EQUITY		
Issued capital	8,611,879	9,758,764
Share based payments Reserve	10,520	10,520
Accumulated losses	(8,405,777)	(8,405,777)
TOTAL EQUITY	216,622	1,363,507

5.4 Effect on Capital Structure

A comparative table of changes in the capital structure of the Company as a consequence of the Offer is set out below. This assumes that the Offer is fully subscribed and no Options are exercised.

Capital Structure after Completion of Offer

No. Shares	Share Equivalents	
40,241,491		Fully paid ordinary shares at 30 March 2007
	3,589,743	Convertible Notes
14,610,411		Shares offered pursuant to this Prospectus
54,851,902		Shares on Issue after completion of the Offer

Options

At the date of this Prospectus the Company has the following Options on issue:

(a) 10,054,409 unquoted non-participating options exercisable at $0.25 each on or before 30 June 2009; and

(b) 900,000 unquoted non-participating options exercisable at $0.20 each on or before 9 January 2010.

6 RIGHTS AND LIABILITIES ATTACHING TO THE SHARES

The following is a summary of the more significant rights attaching to Shares to be issued pursuant to this Prospectus. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice.

Full details of the rights attaching to Shares are set out in the Company's Constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

6.1 General Meetings

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with Section 249D of the Corporations Act and the Constitution of the Company.

6.2 Voting Rights

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, at general meetings of Shareholders or classes of Shareholders:

(a) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;

(b) on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and

(c) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for each Share held, but in respect of partly paid shares shall have a fraction of a vote equivalent to the proportion which the amount paid up bears to the total issue price for the share.

6.3 Dividend Rights

The Directors may from time to time declare and pay or credit a dividend in accordance with the Corporations Act. Subject to any special right as to dividends attaching to a share, all dividends will be declared and paid according to the proportion of the dividend paid to the holder of a fully paid Share that the amount paid up on the Share bears to the total issue price of the Share (but any amount paid during the period in respect of which a dividend is declared only entitles the Shareholder to an apportioned amount of that dividend as from the date of payment). The Directors may from time to time pay or credit to the Shareholders such interim dividends as they may determine. No dividends shall be payable except out of profits. A determination by the Directors as to the profits of the Company shall be conclusive. No dividend shall carry interest as against the Company.

The Directors may from time to time grant to Shareholders or any class of shareholders the right to elect to reinvest cash dividends paid by the Company by subscribing for Shares in the Company on such terms and conditions as the Directors think fit. The Directors may, at their discretion, resolve in respect of any dividend which it is proposed to pay or to declare on any Shares of the

Company, that holders of such Shares may elect to forgo their right to the whole or part of the proposed dividend and to receive instead an issue of Shares credited as fully paid to the extent and on the terms and conditions of the Constitution. The Directors may set aside out of the profits of the Company such amounts as they may determine as reserves, to be applied at the discretion of the Directors, for any purpose for which the profits of the Company may be properly applied.

6.4 Winding-Up

If the Company is wound up, the liquidator may, with the authority of a special resolution, divide among the Shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders. The liquidator may, with the authority of a special resolution, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no Shareholder is compelled to accept any Shares or other securities in respect of which there is any liability.

6.5 Transfer of Shares

Generally, Shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act and the Listing Rules.

6.6 Future Increase in Capital

The allotment and issue of any new Shares is under the control of the Directors of the Company. Subject to restrictions on the issue or grant of securities contained in the Listing Rules, the Constitution and the Corporations Act (and without affecting any special right previously conferred on the holder of an existing share or class of shares), the Directors may issue Shares as they shall, in their absolute discretion, determine.

6.7 Variation of Rights

Under Section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of Shareholders vary or abrogate the rights attaching to Shares.

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up, may be varied or abrogated with the consent in writing of the holders of three quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

7 RISK FACTORS

7.1 Introduction

The Shares offered under this Prospectus are considered speculative, and involve investors being exposed to risk. The Directors strongly recommend potential applicants examine the contents of this Prospectus and consult their professional advisers before deciding whether to apply for Shares pursuant to this Prospectus.

There are specific risks which relate directly to the Company's business. In addition, there are other general risks, many of which are largely beyond the control of the Company and the Directors.

The risks identified in this section, or other risk factors, may have a material impact on the financial performance of the Company and the market price of the Company's shares.

This list is not exhaustive and potential Applicants should examine the contents of this Prospectus and consult their professional advisers before deciding whether to apply for Shares.

7.2 Economic Risks

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's exploration, development and production activities, as well as on its ability to fund those activities.

Further, share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

(a) general economic outlook;

(b) interest rates and inflation rates;

(c) currency fluctuations;

(d) changes in investor sentiment toward particular market sectors;

(e) the demand for, and supply of, capital; and

(f) terrorism or other hostilities.

7.3 Share Market Risks

The price of Shares quoted for trading by ASX is impacted by various international and domestic factors. As the Company is listed on ASX, its Share price is subject to these numerous influences that may affect both the trends in the share market and the share prices of individual companies.

The factors which may create fluctuations in the share market include inflation, economic conditions, commodity prices, interest rates and exchange rates.

7.4 Product Sales and Development

The Company can make no representations that any of its product development and commercialisation will be successful; that the Company's development milestones will be achieved; or that the Company will develop further products that are commercially exploitable. Projects can be delayed or fail, or product/market development may cease to be viable for a range of unexpected commercial reasons.

7.5 Business Relationship Risks

The Company enters into business relationships with various parties for the sale of various products.

In these business relationships, there is the risk of an adverse impact on the Company associated with insolvency, default or other managerial failure or activities of any of the other parties involved.

7.6 Intellectual Property Rights

Securing and protecting rights to intellectual property, and in particular to patents, trademarks and copyrights, is highly problematic in the toys and games industry. Accordingly, the best protection for the Company to avoid infringements in international markets is to expedite the development and sale of the Company's products.

The granting of a patent does not guarantee that the rights of others are not infringed or that competitors will not develop competing intellectual property that circumvents such patents. The Company's success depends, in part, on its ability to obtain patents, maintain trade secret protection and operate without infringing the proprietary rights of third parties.

Because the patent positions of companies in the toys and games industry can be highly uncertain and frequently involve complex legal evaluation, neither the breadth of claims allowed in such patents nor their enforceability can be predicted. There can be no assurance that any patents that the Company may own or control or license now and in the future will afford the Company commercially significant protection of its intellectual property or its projects, or have commercial application.

While the Company is not aware of any third party interests in its intellectual property rights, and it will take steps to protect and confirm its interest in these rights, there is always a risk of third parties claiming an interest in the intellectual property of the Company and, if any such disputes arise, they could adversely affect the Company.

7.7 Risk and Product Liability, and Uninsured Risks

The Company's business exposes it to potential product liability risks that are inherent in the research and development, manufacturing, marketing, and use of its products. In the course of maintaining its business, it will be necessary for the Company to secure sufficient levels of insurance to cover various product liability risks. However, there can be no assurance that adequate or necessary insurance coverage will be available at an acceptable cost or in sufficient amounts. If at all, or that product liability or other claims would not materially and adversely affect the business or financial condition of the Company.

7.8 Uncertainty on Future Profitability

The Company's ability to operate profitably in the future will depend on its ability to commercialise its products with other organisations on commercial terms. This will depend on the ultimate demand for its products by consumers, which cannot be guaranteed. There is no certainty therefore that the Company can successfully commercialise its projects.

Other factors that will determine the Company's profitability are its ability to manage its costs, to execute its development and growth strategies, economic conditions in the markets the Company operates, competitive factors and regulatory developments. Accordingly, the extent of future profits, if any, and the time required to achieve a sustained profitability is uncertain. Moreover, the level of such profitability cannot be predicted.

7.9 Industry Risks

The Company's current and future potential competitors include companies with substantially greater resources than it. There is no assurance that competitors will not succeed in developing products that are more effective or economic than the current products or any of those being developed by the Company, or which would render the products obsolete and/or otherwise uncompetitive. In addition, the Company may not be able to compete successfully against current or future competitors where aggressive pricing policies are employed to capture market share. Such competition could result in price reductions, reduced gross margins and loss of market share, any of which could materially adversely affect the company's future business, operating results and financial position.

7.10 Potential Acquisitions

As part of its business strategy, the Company may make acquisitions of or significant investments in complementary companies, products or technologies, although no such acquisitions or investments are currently planned. Any such future transactions would be accompanied by the risks commonly encountered in making acquisitions of companies, products and technologies.

7.11 Additional Requirements for Capital

The Company's capital requirements depend on numerous factors. Depending on the Company's ability to generate income from its operations, the Company may require further financing in addition to amounts raised under the capital raising. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its exploration programmes as the case may be.

7.12 Licensing, Manufacturing and Distribution Agreements

The Company is a party to a number of different licensing, manufacturing and distribution agreements. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these agreements is either breached by another party or if, for reasons outside of the Company's control, an agreement cannot be renewed or is terminated.

7.13 Reliance on Key Management

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment.

7.14 Speculative Nature of Investment Risks

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Shares offered under this Prospectus.

Therefore, the Shares offered pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of the Shares.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for Shares.

8 ADDITIONAL INFORMATION

8.1 Continuous Disclosure Obligations

The Company is a "disclosing entity" (as defined in Section 111AC of the Corporations Act) for the purposes of Section 713 of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company is required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company's securities. The Shares which will be issued pursuant to this Prospectus are in the same class of Shares that have been quoted on the official list of the ASX during the 12 months prior to the issue of this Prospectus.

This Prospectus is a "transaction specific prospectus". In general terms "transaction specific prospectuses" are only required to contain information in relation to the effect of the issue of securities on the Company and the rights attaching to the securities. It is not necessary to include general information in relation to all of the assets and liabilities, financial position, profits and losses or prospects of the issuing company.

This Prospectus is intended to be read in conjunction with the publicly available information in relation to the Company which has been notified to ASX and does not include all of the information that would be included in a prospectus for an initial public offering of securities in an entity that is not already listed on a stock exchange. Investors should therefore have regard to the other publicly available information in relation to the Company before making a decision whether or not to invest.

Having taken such precautions and having made such enquiries as are reasonable, the Company believes that it has complied with the general and specific requirements of ASX as applicable from time to time throughout the 12 months before the issue of this Prospectus which required the Company to notify ASX of information about specified events or matters as they arise for the purpose of ASX making that information available to the stock market conducted by ASX.

Information that is already in the public domain has not been reported in this Prospectus other than that which is considered necessary to make this Prospectus complete.

The Company, as a disclosing entity under the Corporations Act states that:

(a) it is subject to regular reporting and disclosure obligations;

(b) copies of documents lodged with the ASIC in relation to the Company (not being documents referred to in Section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, the offices of the ASIC; and

(c) it will provide a copy of each of the following documents, free of charge, to any person on request between the date of issue of this Prospectus and the Closing Date:

    (i) the financial statements of the Company for the financial year ended 30 June 2006 being the last financial statements for a financial year, of the Company lodged with the ASIC before the issue of this Prospectus;

(ii) any half-year financial statements of the Company lodged with ASIC since the lodgement of the last financial statements for the half-year ended 31 December 2006 lodged with ASIC before the issue of this Prospectus; and

(iii) any documents used to notify ASX of information relating to the Company in the period from lodgement of the financial statements referred to in paragraph (i) above until the issue of the Prospectus in accordance with the Listing Rules as referred to in Section 674(1) of the Corporations Act.

Copies of all documents lodged with the ASIC in relation to the Company can be inspected at the registered office of the Company during normal office hours.

The Company has lodged the following announcements with ASX since the lodgement of the 2006 Annual Report:

Date	**Description of Announcement**
29/03/2007	ASIC Form 484 - Change to Company Details
29/03/2007	Investor Presentation March 2007
29/03/2007	Rights Issue to raise $1.24 million
26/03/2007	Trading Halt
21/03/2007	Lodgement of 20F to SEC
13/03/2007	Acquires US Wiggles products licence
09/03/2007	Restricted securities release from escrow
01/03/2007	Licensing Agreement with Dreamworks Animation SKG
01/03/2007	Half Yearly Report/Half Year Accounts
30/01/2007	Commitments Test Entity - Second Quarter Report
09/01/2007	Porchlight licensing agreement
15/12/2006	Placement
14/12/2006	Little Golden Books Licensing Agreement
07/12/2006	Change of Director's Interest Notice
22/11/2006	AGM Results of Resolutions
22/11/2006	AGM Managing Director's Address
22/11/2006	AGM Chairman's Address
17/11/2006	Notice of Annual General Meeting
23/10/2006	Commitments Test Entity - First Quarter Report
20/10/2006	Annual Report
16/10/2006	Commences Manufacture
27/09/2006	Annual Report 2006

ASX maintains files containing publicly available information for all listed companies. The Company's file is available for inspection at ASX during normal office hours.

8.2 Material Contracts

The following are summaries of the significant terms of the material agreements which relate to the business of the Company.

<u>Underwriting Agreement</u>

Pursuant to an Underwriting Agreement between the Company and the Patersons Securities Limited (**Underwriter**), the Underwriter has agreed to underwrite the Offer. A summary of the more important terms of the Underwriting Agreement is outlined below.

Under the Underwriting Agreement, the Company will pay the Underwriter, as consideration for its underwriting obligation, 6% of the amount to be raised under the Offer (being a fee of $74,513.10 (exclusive of GST)). The Company must also pay, indemnify and keep indemnified the Underwriter for all costs incurred by the Underwriter in connection with the Offer, including legal fees and disbursements and the reasonable costs of advertising, printing and distributing the Prospectus.

The Company has given warranties and covenants to the Underwriter which are usual in an agreement of this nature. The Underwriting Agreement provides that the Underwriter may terminate the Underwriting Agreement and its obligations under it at any time without cost or liability to the Underwriter upon the occurrence of any one or more of the termination events (**Termination Event**) including:

(a) (**Indices fall**): any of the S&P/ASX 200 Index or the S&P/ASX Small Industrial Index as published by ASX is at any time after the date of the Underwriting Agreement 10% or more below its respective level as at the close of business on the Business Day prior to the date of the Underwriting Agreement; or

(b) **(Share Price):** the closing price of the shares of the Company as quoted by ASX, is less than 8.5 cents; or

(c) (**Prospectus**): the Company does not lodge the Prospectus on the agreed lodgement date or the Prospectus or the Offer is withdrawn by the Company; or

(d) (**Copies of Prospectus**): the Company fails to provide the Underwriter with 20 copies of the Prospectus and any additional copies that the Underwriter may from time to time reasonably require; or

(e) (**No Official Quotation**): Official Quotation has not been granted by the shortfall notice deadline date (as that term is defined in the Underwriting Agreement) or, having been granted, is subsequently withdrawn, withheld or qualified; or

(f) (**Supplementary prospectus**):

   (i) the Underwriter, having elected not to exercise its right to terminate its obligations under the Underwriting Agreement as a result of an occurrence as described in paragraph (r)(vi), form the view on reasonable grounds that a supplementary or replacement prospectus should be lodged with ASIC for any of the reasons referred to in section 719 of the Corporations Act and the Company fails to lodge a supplementary or replacement prospectus in such form and content and within such time as the Underwriter may reasonably require; or

(ii) the Company lodges a supplementary or replacement prospectus without the prior written agreement of the Underwriter; or

(g) (**Non-compliance with disclosure requirements**): it transpires that the Prospectus does not contain all the information required by section 713 (or sections 710, 711 and 716) of the Corporations Act; or

(h) (**Misleading Prospectus**): it transpires that there is a statement in the Prospectus that is misleading or deceptive or likely to mislead or deceive, or that there is an omission from the Prospectus (having regard to the provisions of section 713 (or sections 710, 711 and 716) of the Corporations Act) or if any statement in the Prospectus becomes misleading or deceptive or likely to mislead or deceive or if the issue of the Prospectus is or becomes misleading or deceptive or likely to mislead or deceive; or

(i) (**Restriction on allotment**): the Company is prevented from allotting the Rights offered under the Prospectus within the time required by the Underwriting Agreement, the Corporations Act, the Listing Rules, any statute, regulation or order of a court of competent jurisdiction by ASIC, ASX or any court of competent jurisdiction or any governmental or semi-governmental agency or authority; or

(j) (**Withdrawal of consent to Prospectus**): any person (other than the Underwriter) who has previously consented to the inclusion of its, his or her name in the Prospectus or to be named in the Prospectus, withdraws that consent; or

(k) (**ASIC application**): an application is made by ASIC for an order under section 1324B or any other provision of the Corporations Act in relation to the Prospectus, the shortfall notice deadline date has arrived, and that application has not been dismissed or withdrawn; or

(l) (**ASIC hearing**): ASIC gives notice of its intention to hold a hearing under section 739 or any other provision of the Corporations Act in relation to the Prospectus to determine if it should make a stop order in relation to the Prospectus or the ASIC makes an interim or final stop order in relation to the Prospectus under section 739 or any other provision of the Corporations Act; or

(m) (**Takeovers Panel**): the Takeovers Panel makes a declaration that circumstances in relation to the affairs of the Company are unacceptable circumstances under Pt 6.10 of the Corporations Act, or an application for such a declaration is made to the Takeovers Panel; or

(n) (**Hostilities**): there is an outbreak of hostilities or a material escalation of hostilities (whether or not war has been declared) after the date of the Underwriting Agreement involving one or more of Australia, New Zealand, Indonesia, Japan, Russia, the United Kingdom, the United States of America, India, Pakistan, or the Peoples Republic of China, Israel or any member of the European Union, or a terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries anywhere in the world; or

(o) (**Authorisation**): any authorisation which is material to anything referred to in the Prospectus is repealed, revoked or terminated or expires, or is modified or amended in a manner unacceptable to the Underwriter; or

(p) (**Indictable offence**): a director or senior manager of the Company (or any subsidiary of the Company) is charged with an indictable offence; or

(q) (**Sub-underwriters**): any of the sub-underwriters that are introduced by the Company do not comply with their obligations under their agreements with the Underwriter or threaten to not comply with their respective obligations;

(r) (**Termination Events**): subject always to clause 13.2 in the Underwriting Agreement (which provides that the Underwriter may not exercise its right to terminate on the following events occurring unless the termination event (or two or more termination events) has or is likely to have a material adverse effect or gives rise to a liability of the Underwriter under the Corporations Act), any of the following events occurs:

   (i) (**Default**): default or breach by the Company under the Underwriting Agreement of any terms, condition, covenant or undertaking; or

   (ii) (**Incorrect or untrue representation**): any representation, warranty or undertaking given by the Company in the Underwriting Agreement is or becomes untrue or incorrect; or

   (iii) (**Contravention of constitution or Act**): a contravention by the Company (or any of its subsidiaries) of any provision of its constitution, the Corporations Act, the Listing Rules or any other applicable legislation or any policy or requirement of ASIC or ASX; or

   (iv) (**Adverse change**): an event occurs which gives rise to a material adverse effect or any adverse change or any development including a prospective adverse change after the date of the Underwriting Agreement in the assets, liabilities, financial position, trading results, profits, forecasts, losses, prospects, business or operations of the Company (or any of its subsidiaries) including, without limitation, if any forecast in the Prospectus becomes incapable of being met or in the Underwriter's reasonable opinion, unlikely to be met in the projected time; or

   (v) (**Error in Due Diligence Results**): it transpires that any of the due diligence results or any part of the verification material was false, misleading or deceptive or that there was an omission from them; or

(vi) **(Significant change)**: a "new circumstance" as referred to in section 719(1) of the Corporations Act arises that is materially adverse from the point of view of an investor; or

(vii) **(Public statements)**: without the prior approval of the Underwriter a public statement is made by the Company in relation to the Issue, or the Prospectus; or

(viii) **(Misleading information)**: any information supplied at any time by the Company or any person on its behalf to the Underwriter in respect of any aspect of the Offer or the Issue or the affairs of the Company (or any of its subsidiaries) is or becomes misleading or deceptive or likely to mislead or deceive; or

(ix) **(Official Quotation qualified)**: the Official Quotation is qualified or conditional other than as set out in the definition of "Official Quotation"; or

(x) **(Change in Act or policy)**: there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any of its States or Territories any Act or prospective Act or budget or the Reserve Bank of Australia or any Commonwealth or State authority adopts or announces a proposal to adopt any new, or any major change in, existing, monetary, taxation, exchange or fiscal policy; or

(xi) **(Prescribed Occurrence)**: a prescribed occurrence (as that term is defined in the Corporations Act) occurs; or

(xii) **(Suspension of debt payments)**: the Company suspends payment of its debts generally; or

(xiii) **(Event of Insolvency)**: an event of insolvency occurs in respect of the Company (or a subsidiary of the Company); or

(xiv) **(Judgment against a Relevant Company)**: a judgment in an amount exceeding $25,000 is obtained against the Company (or a subsidiary of the Company) and is not set aside or satisfied within 7 days; or

(xv) **(Litigation)**: litigation, arbitration, administrative or industrial proceedings are after the date of the Underwriting Agreement commenced or threatened against the Company or a subsidiary of the Company, other than any claims foreshadowed in the Prospectus; or

(xvi) **(Board and senior management composition)**: there is a change in the composition of the Board or a change in the senior management of the Company before completion of the allotment of the Shares under the Prospectus without the prior written consent of the Underwriter; or

(xvii) **(Change in shareholdings)**: there is a material change in the major or controlling shareholdings of the Company or a subsidiary of the Company or a takeover offer or scheme of arrangement pursuant to Chapter 5 or 6 of the Corporations Act is publicly announced in relation to the Company or a subsidiary; or

(xviii) **(Timetable)**: there is a delay in any specified date in the Timetable which is greater than 3 Business Days; or

(xix) **(Force Majeure)**: a force majeure affecting the Company's business or any obligation under the Underwriting Agreement lasting in excess of 7 days occurs; or

(xx) **(Certain resolutions passed)**: the Company or subsidiary passes or takes any steps to pass a resolution under section 254N, section 257A or section 260B of the Corporations Act or a resolution to amend its constitution without the prior written consent of the Underwriter; or

(xxi) **(Capital Structure)**: the Company or a subsidiary of the Company alters its capital structure in any manner not contemplated by the Prospectus; or

(xxii) **(Investigation)**: any person is appointed under any legislation in respect of companies to investigate the affairs of the Company or a subsidiary of the Company; or

(xxiii) **(Market Conditions)**: a suspension or material limitation in trading generally on ASX occurs or any material adverse change or disruption occurs in the existing financial markets, political or economic conditions of Australia, Japan, the United Kingdom, the United States of America or other international financial markets; or

(xxiv) **(Suspension)**: the Company is removed from the Official List or the Shares become suspended from Official Quotation and that suspension is not lifted within 24 hours following such suspension; or

(xxv) **(Breach of Material Contracts)**: any of the Material Contracts (as defined in the Underwriting Agreement) is terminated or substantially modified.

Deed of Acknowledgement – Noble Investments Pty Ltd

Noble Investments Pty Ltd **(Noble)** holds Convertible Notes pursuant to a convertible note deed with the Company. Pursuant to this convertible note deed, Noble may participate in an entitlement issue of securities by the Company as if the Convertible Notes had been converted into Shares.

In order for the Underwriting Agreement to be finalised it was necessary to confirm the number of Shares to which Noble was entitled by virtue of holding Convertible Notes under the convertible note deed.

By a Deed of Acknowledgement dated 23 March 2007, the Company agreed with Noble the issue price for determining the number of Shares to which Noble would be entitled in relation to the Entitlement Issue. Under the Deed of Acknowledgement, it was agreed that the number of Shares to which Noble is entitled under the Entitlements Issue is 1,196,581.

8.3 Directors' Interests

Other than as set out below or elsewhere in this Prospectus, no Director nor any firm in which such a Director is a partner, has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

(a) the formation or promotion of the Company;

(b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer of securities pursuant to this Prospectus; or

(c) the Offer of securities pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) to any Director or to any firm in which any such Director is a partner, either to induce him to become, or to qualify him as, a Director or otherwise for services rendered by him or by the firm in connection with the formation or promotion of the Company or Offer of Shares pursuant to this Prospectus.

A notice of meeting which contains resolutions to issue the Directors with Options will be dispatched to Shareholders shortly. The Options will be exercisable at 32.5 cents, expire on 31 December 2011 and are in the following amounts:

Director	**Options**
Mr Alexander Aguero	3,000,000
Mr Charles MacKinnon	2,000,000
Mr Graham Nicol	500,000

The Directors' interests in securities of the Company at the date of this Prospectus are:

Director	**Shares**	**Options**
Mr Alexander Aguero	9,341,418	2,121,450
Mr Charles MacKinnon	1,988,380	393,750
Mr Graham Nicol	465,618	12,500

Notes:

1. Mr MacKinnon and Mr Nicol have both indicated that it is their present intention to take up their full Entitlement under the Offer.
2. Mr MacKinnon and Mr Aguero have formally agreed that Mr Aguero will, for valuable consideration, transfer part of his Entitlement under the Offer, being the entitlement to subscribe for 2,352,941 Shares, to Mr MacKinnon's nominee, Lothbury Pty Ltd. Mr Aguero does not intend to subscribe for the remaining 760,865 Shares to which he is entitled under the Offer.

The Constitution of the Company provides that the Directors may be paid for their services as Directors, a sum not exceeding such fixed sum per annum as may be determined by the Company in general meeting, to be divided among the Directors and in default of agreement then in equal shares.

In the last two years prior to lodgement of this Prospectus at the ASIC $190,440 (2006 financial year) and $153,881 (2005 financial year) (including GST where applicable), has been accrued or paid by the Company by way of remuneration for services provided by the Directors, companies associated with the Directors and their associates, in their capacity as directors, consultants or advisers. Directors, companies associated with the Directors and their associates are also reimbursed for all reasonable expenses incurred in the course of conducting their duties which include, but are not in any way limited to, out of pocket expenses, travelling expenses, disbursements made on behalf of the Company and other miscellaneous expenses.

The aggregate fees and benefits paid to the Directors, or companies associated with the Directors, in the last two financial years are summarised in the table below:

Director	**Salary/Fees 2005**	**Salary/Fees 2006**
Mr Alexander Aguero	$55,384	$87,273
Mr Charles MacKinnon	Nil	$3,516
Mr Graham Nicol	Nil	$2,511

8.4 Interests and Consents of Experts and Advisers

Other than as set out below or elsewhere in this Prospectus, no expert, underwriter, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of the Prospectus, nor any firm in which any of those persons is or was a partner, nor any company with which any of those persons is or was associated, has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

(a) the formation or promotion of the Company; or

(b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer of securities pursuant to this Prospectus; or

(c) the Offer of securities pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) to any expert, underwriter, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this Prospectus, or to any firm in which any of those persons is or was a partner, or to any company with which any of those persons is or was associated, for services rendered by that person, or by the firm or the company, in connection with the formation or promotion of the Company or the Offer of Securities pursuant to this Prospectus.

Steinepreis Paganin act as solicitors to the Company. Steinepreis Paganin will be paid approximately $10,000 for services in relation to this Prospectus. In the last 2 years, Steinepreis Paganin has been paid fees of $13,288.15 for services to the Company.

Patersons Securities Limited is acting as the Underwriter pursuant to the Underwriting Agreement described in Section 8.2 of this Prospectus. The Company will pay Patersons Securities Limited $74,513.10 (exclusive of GST) for the provision of the Underwriter's underwriting obligation. During the 24 months preceding lodgement of this Prospectus with the ASIC, Patersons Securities Limited has not received any other fees for their services.

8.5 Consents to Being Named in this Prospectus

Each of the parties referred to in this section:

(s) does not make, or purport to make, any statement in this Prospectus other than those referred to in this section; and

(t) to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this section.

Pursuant to section 716 of the Corporations Act, BDO Chartered Accountants, has given and has not before lodgement of this Prospectus, withdrawn its consent to be named as Auditor of the Company in the Corporate Directory of the Prospectus and to the inclusion of the balance sheet of the Company for the year ended 31 December 2006 in section 5.3 in the form and context in which it appears. They have not caused the issue of the Prospectus and take no responsibility for any material in, or omission from the Prospectus (except as otherwise noted in this Prospectus).

Steinepreis Paganin has given its written consent to being named as the solicitors to the Company in this Prospectus and has not withdrawn its consent prior to the lodgement of this Prospectus with the ASIC.

Patersons Securities Limited has given, and at the time of lodgement of this Prospectus, has not withdrawn its consent to be named as Lead Manager and Underwriter to the Offer under this Prospectus in the form and context in which it is named.

Patersons Securities Limited was not involved in the preparation of any part of this Prospectus and did not authorise or cause the issue of this Prospectus. Patersons Securities Limited makes no express or implied representation or warranty in relation to Brainytoys Limited, this Prospectus or the offer and does not make any statement in this Prospectus, nor is any statement in it based on any statement made by Patersons Securities Limited.

Computershare Investor Services Pty Ltd has given its written consent to being named the Company's Share Registry in this Prospectus and has not withdrawn its consent prior to lodgement of this Prospectus with the ASIC.

8.6 Legal Proceedings

There is no litigation, arbitration or proceedings pending against or involving the Company as at the date of this Prospectus.

8.7 Estimated Expenses of Offer

In the event that the Offer is fully subscribed, the estimated expenses of the Offer are as follows:

	$
ASIC fees	2,010
Listing fees	4,755
Legal fees	10,000
Underwriting fee	74,513
Printing, registry and other expenses	4,722
Total	**95,000**

8.8 Market Price of Shares

The Company is a disclosing entity for the purposes of the Corporations Act and its Shares are enhanced disclosure securities quoted on ASX.

The highest and lowest market sale prices of the Company's Shares on ASX during the three months immediately preceding the date of lodgement of this Prospectus with the ASIC and the respective dates of those sales were:

Highest: 18 cents on 13 March 2007

Lowest: 9.4 cents on 3 and 5 January 2007

The latest available closing sale price of the Company's Shares on ASX prior to the lodgement of this Prospectus with the ASIC was 12 cents on 29 March 2007.

8.9 Electronic Prospectus

Pursuant to Class Order 00/044, the ASIC has exempted compliance with certain provisions of the Corporations Act 2001 to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with the ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Entitlement and Acceptance Form. If you have not, please phone the Company on (08) 9331 8441 and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus, or both.

The Company reserves the right not to accept an Entitlement and Acceptance Form from a person if it has reason to believe that when that person was given access to the electronic Entitlement and Acceptance Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

9 AUTHORITY OF DIRECTORS

9.1 Directors' Consent

Each of the Directors of the Company has consented to the lodgement of this Prospectus with the ASIC in accordance with Section 720 of the Corporations Act.

Dated the 30th day of March 2007

CHARLES MACKINNON
DIRECTOR
For and on behalf of
BRAINYTOYS LIMITED

10 DEFINITIONS

Applicant means a person who applies for Shares pursuant to the Offer.

ASIC means the Australian Securities and Investments Commission.

ASTC Settlement Rules means the settlement rules of the securities clearing house which operates CHESS.

ASX means ASX Limited (ACN 008 624 691).

Board means the board of Directors unless the context indicates otherwise.

Business Day means a day on which trading takes place on the stock market of ASX.

CHESS means ASX Clearing House Electronic Sub-registry System.

Closing Date means the closing date of the Offer, being 5pm (WST) on 30 April 2007 (unless extended).

Company or **Brainytoys** means Brainytoys Limited (ABN 28 001 894 033).

Constitution means the Company's Constitution as at the date of this Prospectus.

Convertible Notes means the convertible notes in the Company held by Noble Investments Pty Ltd pursuant to a convertible note deed dated 2 August 2006.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the directors of the Company at the date of this Prospectus.

Dollar or "**$**" means Australian dollars.

Entitlement or **Right** means the entitlement (or right) of a Participating Security Holder who is eligible to participate in the Offer.

Entitlement and Acceptance Form means the application form either attached to or accompanying this Prospectus.

Issue means the issue of Shares offered by this Prospectus.

Listing Rules or **ASX Listing Rules** means the Listing Rules of the ASX.

Offer means the renounceable entitlement offer of one (1) Share for every three (3) Participating Securities held on the Record Date, further details of which are included in the "Details of the Offer" section of this Prospectus.

Offer Period means the period commencing on the Opening Date and ending on the Closing Date.

Official List means the official list of ASX.

Option means an option to acquire a Share.

Option Holders means those parties holding Options to acquire Shares as at the date of this Prospectus.

Participating Securities means the existing Shares on issue as at the Record Date and the convertible notes issued by the Company which provide for an entitlement under this Prospectus.

Participating Security Holder means a holder of a Participating Security.

Patersons and **Underwriter** means Patersons Securities Limited (ABN 69 008 896 311).

Prospectus means this prospectus.

Quotation and **Official Quotation** means official quotation on ASX.

Record Date means 5pm (WST) on 12 April 2007.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a shareholder of the Company.

Shortfall means the number of Shares comprising the difference between the Shares the subject of the Offer and the number of Shares for which valid applications have been received and accepted by the Company.

Shortfall Application Form means the shortfall application form attached to or accompanying this Prospectus.

Shortfall Offer means the offer for the Shortfall pursuant to this Prospectus.

Underwriting Agreement means the agreement entered into between the Company and the Underwriters on 30 March 2007 whereby the Underwriter has agreed to underwrite the Offer.

WST means Western Standard Time.

BRAINTYTOYS LIMITED
ABN 28 001 894 033

ENTITLEMENT AND ACCEPTANCE FORM

Please read carefully the Prospectus dated 30 March 2007 accompanying this form.
THIS DOCUMENT IS IMPORTANT. IF YOU ARE IN DOUBT AS TO HOW TO DEAL WITH IT, PLEASE CONTACT YOUR STOCKBROKER OR PROFESSIONAL ADVISOR.

REGISTERED OFFICE:
6B Bowen Street
O'Connor Western Australia 6163
Tel: (08) 9331 8441
Fax: (08) 9331 8452

SHARE REGISTRY
Computershare Investor Services Pty Limited
Level 2, Reserve Bank Building
45 St Georges Terrace
PERTH WA 6000
Tel: 1300 787 575
Fax: (08) 9323 2033
Website: www.computershare.com

<<Shareholder Name>>
Address
SUBURB STATE P/C

HIN/SRN:
Entitlement No:
Sub-Register

Shareholding at 5:00pm 12 April 2007	Entitlement to Shares On a 1:3 basis	Amount payable at 8.5 cents per Share

A RENOUNCEABLE ISSUE OF APPROXIMATELY 14,604,306 ORDINARY FULLY PAID NEW SHARES AT AN ISSUE PRICE OF $0.085 EACH ON THE BASIS OF ONE (1) NEW SHARE FOR EVERY THREE (3) SHARES HELD

IMPORTANT NOTICE: HOLDERS WHOSE EXISTING SHARES ARE HELD ON THE CHESS SUBREGISTER AS DETAILED ABOVE SHOULD IN THE FIRST INSTANCE CONTACT THEIR SPONSORING BROKER/AGENT IN RESPECT TO ANY PROPOSED ON-MARKET SALE OF THEIR RIGHTS.
RIGHTS TRADING IS EXPECTED TO COMMENCE 4 APRIL 2007 AND CEASE ON 20 APRIL 2007. THE RIGHTS REFERRED TO IN THIS FORM MAY BE TRANSFERRED ELECTRONICALLY ON CHESS BY SURRENDERING THE ENTITLEMENT AND ACCEPTANCE FORM TO YOUR SPONSORING STOCKBROKER BEFORE RIGHTS CEASE TRADING.
THIS ENTITLEMENT AND ACCEPTANCE FORM SHOULD NOT BE RELIED UPON AS EVIDENCE OF THE CURRENT ENTITLEMENT OF THE PERSON NAMED IN THIS ENTITLEMENT AND ACCEPTANCE FORM.

To the Directors
BRAINYTOYS LIMITED

1. I/We the abovementioned being registered at 5.00 pm (Perth Time) on 12 April 2007, as the holder(s) of Shares in your Company hereby accept: **(PLEASE DELETE ONE)**
   (a) my Entitlement in full
   (b) less than my full Entitlement
   as follows:

NO. OF SHARES ACCEPTED	@ 8.5 CENTS PER SHARE	AMOUNT ENCLOSED AT 8.5 CENTS PER SHARE
	x $0.085	AUD $

2. I/We enclose my/our cheque in Australian Dollars for the amount shown being payment at the rate of $0.085 per Share (***made payable to "BRAINYTOYS LIMITED – ENTITLEMENT OFFER ACCOUNT"***).

PLEASE ENTER CHEQUE DETAILS	Drawer	Bank	Branch	Amount

3. I/We hereby authorise you to place my/our name(s) on the registers of members in respect of the number of Shares allotted to me/us.
4. I/We agree to be bound by the Constitution of the Company.
5. If any information on this form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be accepted. Any decision of the Directors of the Company as to whether to accept the form, and how to construe, amend or complete it, or to deposit such payment shall be final.
6. My/Our contact numbers in case of enquiries are:

Area Code	Telephone Number	Area Code	Facsimile Number

THIS FORM DOES NOT REQUIRE SIGNING UNLESS YOU WISH TO CHANGE YOUR ADDRESS
Please complete ONLY if your ISSUER SPONSORED address is incorrect.

Block Letters Please

NEW ADDRESS: **CHESS HOLDERS CAN ONLY AMEND THEIR ADDRESS BY ADVISING THEIR SPONSORING BROKER**

Your signature(s): ....

RETURN OF THIS DOCUMENT WITH THE REQUIRED REMITTANCE WILL CONSTITUTE YOUR ACCEPTANCE OF THE SECURITIES BEING OFFERED IN ACCORDANCE WITH THE PROSPECTUS DATED (*) 2007

PLEASE READ LODGEMENT INSTRUCTIONS OVERLEAF

THIS ENTITLEMENT AND ACCEPTANCE FORM WITH PAYMENT IN FULL MUST BE LODGED WITH THE SHARE REGISTRY NO LATER THAN 5.00PM WST ON 30 April 2007

BRAINYTOYS LIMITED
ABN 28 001 894 033

LODGEMENT INSTRUCTIONS

ACCEPTANCE OF YOUR ENTITLEMENT

(a) **IN FULL** -Complete this Entitlement and Acceptance Form, attach your cheque or bank draft in Australian currency payable to **BRAINYTOYS LIMITED – ENTITLEMENT OFFER ACCOUNT** for the acceptance money payable as shown overleaf and forward them so as to reach the Company's Share Registry,:

Computershare Investor Services Pty Limited
Level 2, Reserve Bank Building
45 St Georges Terrace
PERTH WA 6000

Tel: 1300 787 575
Fax: (08) 9323 2033
Website: www.computershare.com

NO LATER THAN 5.00 pm WST on 30 April 2007.

(b) **IN PART AND SALE OF THE BALANCE OF YOUR ENTITLEMENT-** Fill out the panel below titled "Instructions to your Stockbroker", complete the Entitlement and Acceptance form overleaf as to the Shares being accepted and acceptance money payable, and forward it together with your cheque or bank draft in Australian currency payable to **BRAINYTOYS LIMITED – ENTITLEMENT OFFER ACCOUNT** to your stockbroker no later than 20 April 2007 which is the last day of Rights trading. Your stockbroker will then lodge your acceptance and cheque with the Company's share registry.

These instructions will need to be with your stockbroker in sufficient time to sell your rights. Rights trading commenced on 4 April 2007, and ceases on 20 April 2007.

SALE OR PURCHASE ON MARKET OF SHARES PRIOR TO 5.00PM PERTH TIME ON 12 APRIL 2007

If you have purchased or sold shares on ASX prior to 5.00 pm WST on 12 April 2007 (being the last day for trading on a cum rights entitlement basis) and this is not reflected in your shareholding shown overleaf, you should consult the stockbroker who acted for you to protect your entitlements or determine the action you should take. If you have sold all your Shares, forward this form intact to the stockbroker who acted for you.

BROKER		No. Of Shares Sold	Holder Number

SALE OF YOUR ENTITLEMENT IN FULL BY YOUR STOCKBROKER

Complete the panel below titled "Instructions to your Stockbroker" and forward this Form to your stockbroker no later than 20 April 2007, which is the last day of rights trading.
These instructions will need to be with your stockbroker in sufficient time to sell your Rights. Rights trading commenced on 4 April 2007, and ceases on 20 April 2007.

DISPOSAL OF YOUR ENTITLEMENT OTHER THAN THROUGH A STOCKBROKER

Standard Renunciation Forms must be used for all disposals of entitlements other than through a stockbroker. These may be obtained from your stockbroker or our Share Registry, Security Transfer Registrars Pty Ltd. These Renunciation Forms must be completed both by the offeree as seller and by his/her nominated buyer. The duly completed Renunciation Form should then be lodged with the Company's Share Registry by 5.00pm (WST) on 20 April 2007 together with this Form and application money.

PAYMENT

All cheques (expressed in Australian currency) are to be made payable to **"BRAINYTOYS LIMITED - ENTITLEMENT OFFER ACCOUNT"** and crossed "Not Negotiable". Do not forward cash, postal orders or notes. Receipts will not be issued.

Personal cheques drawn on overseas banks in Australian or any foreign currency will **NOT** be accepted. Any such cheques will be returned and the acceptance deemed to be invalid. Similarly, payments made direct to the Company's bank account will **NOT** be accepted, unless authorised by the Directors of Brainytoys Limited.

IMPORTANT NOTICE TO HOLDERS WITH SHARES ON CHESS SUB-REGISTER

Holders whose existing Shares are held on the CHESS Sub-register as detailed overleaf should, in the first instance, contact their sponsoring broker in respect of any proposed sale of their rights.

GENERAL INFORMATION

(a) This Entitlement and Acceptance Form does not require signing.

(b) Applications will only be accepted on this Entitlement and Acceptance Form.

(c) Entitlements either not accepted and/or renounced by 5.00 pm (WST) on 20 April 2007, will become the property of the Underwriters.

(d) Uncertificated holders who are broker sponsored are reminded that any renunciation may only be dealt with through their sponsoring broker.

All times referred to in this form are WST, which is Australian Western Standard Time. Cheques will be deposited on the day of receipt. Sufficient cleared funds should be held in your account as cheques returned unpaid MAY RESULT IN YOUR ACCEPTANCE BEING REJECTED. If you need further information on how to deal with your entitlements, telephone the Share Registry on 1300 787 575.

ENQUIRIES

If you have any further questions concerning this Offer, please telephone your stockbroker or financial advisor or the Share Registry on 1300 787 575.

INSTRUCTIONS TO YOUR STOCKBROKER

To be completed and sent to your Stockbroker ONLY IF YOU WISH TO SELL the whole or part of your entitlement.

I/We HAVE ACCEPTED	Rights AS PER REVERSE SIDE	
and attach to this Form my/our cheque for	Being acceptance money at $0.085 per Right	A$
PLEASE SELL	Rights	

This instruction *has/has not previously been notified to you.

*Please delete as appropriate

ISSUE CLOSES 5.00PM WST 30 APRIL 2007

SHORTFALL APPLICATION FORM
BRAINYTOYS LIMITED
ABN 28 001 894 033

I/We declare that this application is completed according to the declarations/appropriate statements and in accordance with the instructions and agree to be bound by the Constitution of Brainytoys Limited. I/We agree to take any number of Shares equal to or less than the number applied for. I/We authorise the Directors to complete or amend this Application Form where necessary to correct any errors or omissions.

NOTE: Return of this Application Form with your cheque, bank draft or transfer of funds directly to the Company's bank account (subject to prior arrangement) for the application monies will constitute your offer to subscribe for Shares in the Company. No signature is required. You should read the Prospectus before completing this Application Form.

USE BLOCK LETTERS

TITLE	GIVEN NAMES	SURNAME	Tax File Number(s) or exemption category

TITLE	JOINT APPLICATION No.2 OR ACCOUNT DESIGNATION	

ADDRESS

SUBURB/TOWN	STATE	P/CODE

CONTACT NAME	TELEPHONE WORK	TELEPHONE HOME

PID	HIN

I/WE APPLY FOR		Application Money	Date
	Shares and lodge application monies in full of $0.085 per Share	A$	

Cheque Details

DRAWER	BANK	BRANCH	AMOUNT OF CHEQUE

Cheques should be made payable to "*BRAINYTOYS LIMITED – ENTITLEMENT OFFER ACCOUNT*".

INSTRUCTIONS TO APPLICANTS

Please complete all relevant sections of the Shortfall Application Form using BLOCK LETTERS. If you have any questions on how to complete this Shortfall Application Form please telephone Mr Charles MacKinnon on (08) 9368 6997.

Before completing this Shortfall Application Form, applicants should read the Prospectus to which it relates.

The Prospectus does not constitute an offer in any place where or to any person to whom it would not be lawful to make such an offer.

Forward the Shortfall Application Form together with your remittance for application money at $0.085 per Share subscribed so as to reach:

Computershare Investor Services Pty Limited
Level 2, Reserve Bank Building
45 St Georges Terrace
PERTH WA 6000

by 5.00pm (WST) before 30 April 2007.

Only cheques and/or bank drafts in Australian currency and drawn or payable on a bank within Australia should be sent, made payable to *"BRAINYTOYS LIMITED – ENTITLEMENT OFFER ACCOUNT"* and crossed *"Not Negotiable"*.

A receipt for payment will not be forwarded.

PERSONAL CHEQUES DRAWN ON OVERSEAS BANKS IN AUSTRALIAN DOLLARS OR IN A FOREIGN CURRENCY WILL NOT BE ACCEPTED. THESE WILL BE RETURNED AND THE APPLICATION DEEMED INVALID. PAYMENTS CAN BE MADE DIRECT TO THE COMPANY'S BANK ACCOUNT WITH PRIOR ARRANGEMENT.