

29 August 2008



COMPANY ANNOUNCEMENT WORKING CAPITAL & FINANCING AGREEMENT

Brainytoys Limited ("BRT") is pleased to announce the following developments:

1 PROPOSED MEZZANINE WORKING CAPITAL FACILITY

Brainytoys Inc ("BI"), a wholly owned subsidiary of BRT has accepted a conditional (subject to due diligence) proposal from Blackwater Capital Partners LP, a US Investment Banking Group, for a US\$4 million subordinated term note facility for working capital & extinguishment of acquisition debt purposes. Full details will be provided following settlement of the facility.

2. REVISED INVENTORY FINANCING ARRANGEMENTS FOR MARSHMALLOW PRODUCT.

On 5 August 2008, the Company announced the execution of certain financing agreements relating to factoring and purchase order/Letter of credit facilities.

Whilst the factoring facility is operating satisfactorily, regrettably the PO/LC facility is yet to be activated thereby causing delays in the marshmallow product supply line from Chinese factories flowing through to sales deliveries.

In order to meet the purchase payment schedules to the factories it is estimated that an additional cash injection of US\$1.5 - 2 million is required in the short term.

To address this situation the Company has entered into a further agreement with the Marshmallow Fun Company LLC ("MFC"), the vendor to BRT of the Marshmallow product business involving this additional inventory financing in addition to forbearance provisions relating to the retirement of the MFC inventory financing and other amounts due to MFC.

All amounts due under the revised arrangements are to be paid on or before 15 November 2008 with adverse consequences to BI (including loss of product license) if not paid in full.

It is proposed that the settlement of the outstanding sums due to MFC will occur from one or more currently available or expected sources including the aforementioned Blackwater facility.

ENDS

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