BUSINESS STRATEGY OUTLINE AND OPERATING UPDATE

Headline ("HLD") is the 73% owner of the Skansen/Kids Central group ("KCG"). Our investment in KCG was made in August 2009. HLD merged the Skansen Beanie Kids business into the KCG Group and invested $4 million of funds, with an option and expectation to invest an additional $3M.

Following the sale of all excess properties, HLD effectively now has:
- Cash
- A direct equity investment in KCG
- Carried forward tax losses and
- Significant utilisable franking credits.

It is important to understand that the 73% owned KCG operates and manages the:
- Roll out Mothercare to a national footprint in Australia;
- Kids Central retail store network including Early Learning Centres retail locations; and
- Beanie Kids distribution to independent retailers.

KCG is financed by equity from its shareholders and trade finance bank lines funding its working capital. Working capital funding currently approximates $3 million.

The reporting of profits by HLD is thus generated from our returns from KCG and our cash. HLD has administration and management overheads which are expensed. HLD receives management fees from KCG for its active role in providing strategic, operating management and financial services.

The 2010 calendar year will see HLD finance and account for the significant expenses associated with the rollout by KCG of the Mothercare retail offer. This is an exciting undertaking and one which the HLD directors expect will bear significant returns for the company in future years.

In this review we wish to:
- Update and outline the adjustments to the Mothercare rollout by KCG;
- Review the current trading of the KCG businesses; and
- Update the 2009/10 and 2010/11 EBITDA projections for the KCG business.

Following the launch of Mothercare in March we are now better placed to forecast the short and medium term profitability of KCG. Further, our review of the first six months of trading by KCG since our investment has resulted in adjustments to the operating plan and our forecasts of profitability.

Kids Central and ELC Trading

The ELC/Kids Central business continued to perform relatively well post an excellent Christmas trading period. The business generated acceptable revenue results in January and February. An increased gross margin percentage was driven by the favourable exchange rate environment. Like-for-like store sales growth was a pleasing 4.3% up on the 2009 January and February months.

The Easter period has historically been an important sale and cash generation time for the KCG toy business. This year, the Easter Toy Sale revenue was down on previous years. Gross profit was therefore commensurately down, although the decision not to discount as aggressively in previous years mitigated the gross margin impact. During this same period, KCG closed two under-performing Kids Central stores, in NSW and Canberra.

Since Easter the difficult sales trend for KCG toys has continued. This is very much in line with the message being reported in general by the retail sector. With interest rates rising further we are cautious on the short term retail outlook.

Importance of 'Mothercare Inserts' and acceleration of rollout

The recent performance of the ELC and Kids Central toy centric businesses underlines the importance of accelerating the Mothercare rollout. This will be achieved by aggressively inserting Mothercare merchandise into our existing retail stores.

Mothercare inserts will counter the seasonality of the KCG business and drive additional foot traffic into the Kids Central locations. The ongoing success of the Mothercare fashion range in the both the Chadstone and Doncaster stores have shown that the introduction of Mothercare to Kids Central locations does substantially improve the sales per m2 across the store product range.

Mothercare 'Inserts' will be put into Chatswood, Rhodes, Castle Hill and Belrose in NSW, and Southland in Victoria. Next season's stock is currently arriving into our recently opened Mothercare warehouse and we should begin to reap the benefits of these Mothercare inserts in July and August.

Thus, the injection of the exclusive *"Mothercare"* offer will drive an improvement in the performance of KCG. This will be achieved by generating higher gross margin and better space productivity. It will smooth the sales profile of the business by reducing the exposure to toys which relies heavily on the Christmas period.

Mothercare Rollout Update

The Chadstone store has predictably settled down in comparison with its euphoric opening. However, it continues to post very positive sales numbers that are exceeding initial expectations. The Doncaster opening was also very successful – with the sales in the initial trading days exceeding even those posted at Chadstone. At Chadstone we validated the Mothercare fashion offer, and now the Doncaster store has demonstrated the viability of the Mothercare Home & Travel range.

The rollout of large format stores is continuing with Mt Gravatt in Brisbane and Highpoint in Victoria scheduled to open in July and August respectively.

<u>Mt. Gravatt Store Profile</u>:

An additional store in Brisbane and another parenting centre in the South Eastern suburbs of Melbourne will be opened in Q1 of 2011.

Updated profit projections based on revised business plan

As outlined above and based on the success of the initial store openings, we have elected to accelerate the Mothercare roll out. This has and will involve significant upfront investment by KCG and HLD in the infrastructure required to build a substantial retail business. This investment will be mostly expensed and not capitalised.

To facilitate the accelerated Mothercare roll out in 2010/11, we have undertaken and will continue to undertake expenditure in areas such as:

- Marketing and online brand positioning
- Staff training across a broader base so as to have 'ready' customer service as new stores open
- Increased resources at head office, including retail design and store fit out project management such that the knowledge and expertise of Mothercare store openings remains in-house
- Additional skills in Buying for the new Mothercare categories, and in Finance and Administration for the required management systems to be put in place
- New Dedicated Mothercare Distribution Centre set up and operational in NSW

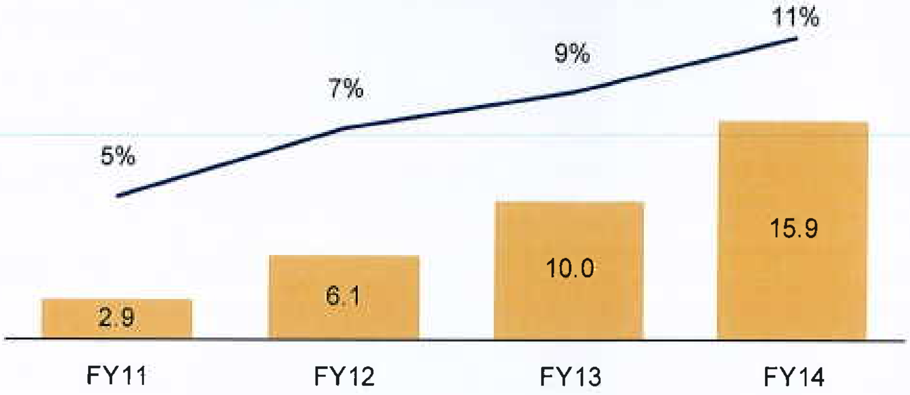
The impact on our profitability due to the retail environment and the revised business plan is two-fold:

a. **2009/10**
   Given the accelerated expenditure and investment associated with the Mothercare rollout, combined with the lower than anticipated return from the Toy business, we are now forecasting 2009/10 operating EBITDA for KCG to be negative \$1.4M. As 70% of this will stream up to HLD, this will adversely affect the anticipated year-end HLD loss.

b. 2010/11

We our revising upwards our 2010/11 EBITDA estimate to be a $2.9M profit. Our AGM forecast was for KCG in 2010/11 to achieve an EBITDA of $1.7M. The success of the Mothercare stores to date together with the acceleration of the roll-out encourages us to increase our guidance. The significant upfront expenditure will now mainly be felt in the 2009/10 reported results.

Revised Skansen KCG Earning Profile Forecast



Cash Position-Lisarow Property Sale Settlement

As we indicated in our most recent announcement, the sale of the remaining at Lisarow has been completed and settlement proceeds received. This cash injection will form part of the funds used to exercise HLD's option to invest a further $3M into the KCG business prior to the end of this financial year. Following this investment the cash holding of HLD is expected to be $3.2M at 30 June.

Summary

The board remains excited regarding the growth and market acceptance of the Mothercare business. We are encouraged by our Mothercare trading performance to announce that we are confident of generating a significantly more positive EBITDA result in 2010/11 than originally forecast. This is a result of the investment that we are undertaking today in resources, branding and systems. We are active in our discussions in the market to accelerate even further our road to a national footprint via potential acquisitions.

We want to remind our HLD shareholders to continue to consider the HLD/Mothercare as a three year development strategy. In some respects, the launch expense and initial capital expenditure attached to the early stages of the rollout of Mothercare through KCG may be more akin to the investment profile a private company. This significant upfront investment and the associated accounting treatment of this investment clearly impacts our publicly-reported earnings in a launch year such as this. Thus, we want to advise shareholders again that we are half way through the first year of our three year growth plan.

Clearly, as we implement our plans we will learn more and make further adjustments to the KCG Mothercare rollout strategy. It is the Boards intention to keep our shareholders regularly updated with our performance and adjustments to our rollout strategy.

Brent Dennison
Managing Director

Gordon Elkington
Executive Chairman