

# **Mothercare Australia Limited**

ACN 060 199 082

## **Prospectus**

### **Non-Renounceable Rights Issue**

For a pro rata non-renounceable rights issue to Shareholders of 1 New Mandatorily Converting Note for every 5 Shares held on the Record Date at \$0.18 per security converting into 1 Share for every Mandatorily Converting Note subscribed for to raise up to approximately \$7.6 million.

This is an important document and requires your immediate attention. It should be read in its entirety. If you do not understand its contents, or are in doubt as to how to act, you should consult your stockbroker or professional adviser.

**The Rights Issue closes at 5.00pm Sydney time on 26 September 2011.**

# Contents

1.	Details of the Rights Issue.....	8
2.	Action Required By Eligible Shareholders .....	16
3.	Effect of the Rights Issue on Mothercare .....	18
4.	Risk Factors .....	20
5.	Additional Information .....	24
6.	Authorisation .....	36
7.	Defined Terms and Interpretation.....	37

## Key Dates\*

Prospectus lodged with ASIC	1 September 2011
Existing Shares quoted ex-rights on ASX	5 September 2011
<b>Record Date to determine entitlements under the Rights Issue (7.00pm Sydney time)</b>	9 September 2011
Rights Issue opens	12 September 2011
<b>Closing date and date for acceptances and payment in full*</b>	26 September 2011
Securities quoted on a deferred settlement basis	27 September 2011
Allotment of New Securities	5 October 2011

\*These dates are indicative only and may be subject to change. Subject to the Corporations Act, the Listing Rules and other applicable laws, the Directors reserve the right to vary the dates, including to extend the Rights Issue, close the Rights Issue early or accept late applications (either generally or in particular cases), without prior notice. You are encouraged to submit your Entitlement and Acceptance Form as soon as possible.

## Important Information

This Prospectus is dated 1 September 2011 and was lodged with ASIC on that date. Neither ASIC nor the ASX, nor any of their officers, take any responsibility for the contents of this Prospectus or for the merits of the investment to which this Prospectus relates.

No New Mandatorily Converting Notes will be issued on the basis of this Prospectus after the Expiry Date. New Mandatorily Converting Notes issued pursuant to this Prospectus will be issued on the terms and conditions set out in this Prospectus. Mothercare will not apply to ASX for the New Mandatorily Converting Notes to be quoted on ASX.

## Foreign jurisdictions

The New Mandatorily Converting Notes being offered under this Prospectus are being offered to Eligible Shareholders, being Shareholders with registered addresses in Australia, New Zealand and England on the terms and conditions described in Sections 1.1 and 1.2 of this Prospectus.

The distribution of this Prospectus in jurisdictions outside Australia, New Zealand and England may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. 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. No action has been taken to register the New Mandatorily Converting Notes or Rights, or otherwise permit an offering of the New Mandatorily Converting Notes or Rights, in any jurisdiction outside of Australia, New Zealand and England. In particular, this Prospectus does not constitute an offer for sale of the New Mandatorily Converting Notes or Rights in the United States or to U.S. persons. The New Mandatorily Converting Notes or Rights have not been, and will not be, registered under the U.S. Securities Act and must not be offered or sold within the United States or to U.S. persons unless they are registered under the U.S. Securities Act or an exemption from the registration requirements of the U.S. Securities Act is available.

The Offer to Eligible Shareholders in New Zealand is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act and the Corporations Regulations. In New Zealand, this is Part 5 of the *Securities Act 1978* and the *Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008*.

The Offer and the content of the Prospectus are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act and the Corporations Regulations set out the manner in which the Offer must be made.

Securities are regulated differently under Australian law and New Zealand law.

The rights, remedies and compensation arrangements available to New Zealand investors in relation to Australian securities may differ from the rights, remedies and compensation arrangements for New Zealand securities.

Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to the Offer. If you are resident in New Zealand and need to make a complaint about the Offer, please contact the Securities Commission in Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian securities in New Zealand is not the same as for New Zealand securities.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The Offer may involve currency exchange risk. The currency for the New Mandatorily Converting Notes is not New Zealand dollars. The value of the New Mandatorily Converting Notes will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant.

If you expect the New Mandatorily Converting Notes to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

Neither the information in this document nor any other document relating to the Offer has been delivered for approval to the Financial Services Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the *Financial Services and Markets Act 2000* (UK), as amended (**FSMA**)) has been published or is intended to be published in respect of the New Mandatorily Converting Notes. This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of FSMA) in the United Kingdom, and the New Mandatorily Converting Notes may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) of FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received in connection with the issue or sale of the New Mandatorily Converting Notes has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the *Financial Services and Markets Act 2000 (Financial Promotions) Order 2005* (UK) (**FPO**), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together "relevant persons"). The investments to which this document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

#### **Investment decisions**

The information in this Prospectus does not constitute financial product advice. This Prospectus does not take into account the investment objectives, financial situation, tax position and particular

needs of individual investors. Investors should obtain their own independent advice and consider the appropriateness of the offer of New Mandatorily Converting Notes pursuant to this Prospectus having regard to their objectives, financial situation, tax position and needs.

### **Future performance**

Except as required by law, and only then to the extent so required, neither Mothercare nor any other person warrants the future performance of Mothercare, or any return on any investment made pursuant to this Prospectus. An investment in the New Mandatorily Converting Notes offered by this Prospectus should be considered speculative.

### **Representations**

No person is authorised to give information or to make any representation in connection with this Prospectus which is not contained in this 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.

### **The Trustee**

The Trustee has not authorised or caused the issue of this Prospectus. The Trustee's role in the preparation of this Prospectus has been limited to reviewing this Prospectus to ensure that its contents are not inconsistent with the terms of the Notes or the Trust Deed. The Trustee expressly disclaims and takes no responsibility for this Prospectus. Other than direct references to it in this Prospectus, the Trustee makes no statement in this Prospectus and has not authorised or caused the issue of this Prospectus.

### **Continuously quoted securities**

This is a Prospectus for an offer of securities which are convertible into continuously quoted securities (as defined in the Corporations Act) of Mothercare and has been prepared in accordance with section 713 of the Corporations Act and ASIC Class Order 00/195. Accordingly, this Prospectus does not contain the same level of disclosure as an initial public offering prospectus.

### **Prospectus availability**

The Prospectus is available to download and view as an electronic Prospectus at Mothercare's website [www.mothercare.com.au](http://www.mothercare.com.au). Any Eligible Shareholder accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be a resident of Australia, New Zealand or England and must only access this Prospectus from within Australia, New Zealand or England.

The Corporations Act prohibits any person passing on to another person an Entitlement and Acceptance Forms unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any Eligible Shareholder may obtain a hard copy of this Prospectus free of charge by contacting the Company Secretary on + 61 2 9332 9900.

### **Terms of the Rights Issue**

Subject to compliance with the Corporations Act, the Listing Rules and any other applicable laws, the Directors reserve the right to withdraw the Rights Issue and Prospectus at any time in their absolute discretion. In either case, the relevant Application Monies will be refunded as soon as practicable after the Closing Date (without interest).

### **Defined Terms**

A number of terms used in this Prospectus are defined in Section 7 of this Prospectus. Unless the contrary intention appears, terms used in this Prospectus have the same meaning as in the Corporations Act.



**Mothercare Australia Limited**

ACN 060 199 082

Registered Office: Level 1, Building 220/2A, The Entertainment Quarter, 122 Lang Road, Moore Park, NSW 2021  
Telephone: (02) 9332 9900; Facsimile: (02) 9358 5799

**Chairman's Letter**

Dear Shareholder,

I wish to invite you to participate in our offer of one Mandatorily Converting Note for every five Shares you hold as at the Record Date priced at \$0.18 per security yielding interest at 8% per annum (in respect of interest payments that are fully franked) or 11.45% per annum (in respect of interest payments that do not carry a franking credit) (**Offer**). The New Mandatorily Converting Notes issued by the Company will be secured by a second ranking fixed and floating charge over all of the Company's assets.

The proceeds of the Offer will be used to:

- provide additional working capital for the Company;
- enable the Company to take advantage of increased store location opportunities; and
- expand the Company's marketing investment in creating Mothercare's brand awareness.

Full details of the Offer are set out in the Prospectus accompanying this letter.

The Offer will raise up to approximately \$7.6 million, before the costs of the Offer. This will comprise up to \$2.6 million in new subscription monies and as to the balance by capitalising a loan of \$2 million made to the Company by Mothercare PLC and a loan of \$3 million made to the Company by Myer Family.

While the Company is currently operating in challenging retail conditions and requires a lift in sales performance, the Board believes the initiatives this capital raising will facilitate will be important contributors to Mothercare making progress towards its growth and profitability objectives. The additional funding will also be used to increase the Company's scale and brand presence, and to enable management to continue the process of establishing the required platform and systems for sustainable growth.

Both Mothercare and Early Learning Centre are well recognised international brands operating successfully in over 55 countries. We are witnessing already in Australia the gross margin advantage of Mothercare's global reach, and are beginning to enjoy the benefits of the breadth of the Mothercare offer which includes, for the first time in the mother and baby specialty retail category in Australia, an extensive apparel offer. Certainly the support of Mothercare PLC, along with that of Myer Family, is ensuring that Mothercare has every opportunity to succeed in its endeavours.

The Board is mindful of the challenges facing the Company particularly in the current retail environment. We are, however, optimistic that Mothercare will achieve its goals and become a market leader in its targeted markets.

Yours sincerely,

  
Robert Gayshon  
Chairman

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ABN: 26 060 199 082

**Key Risks**

The New Mandatorily Converting Notes will not be listed on the ASX and upon conversion into Shares may have a value of less than the issue price of the New Mandatorily Converting Notes

Although the New Mandatorily Converting Notes are secured, any returns to Noteholders on a winding up of the Company are limited to the remaining proceeds after repayment of the first ranking security

The only remedy available to the Trustee on behalf of the Noteholders for a failure by the Company to pay interest when due or to convert the New Mandatorily Converting Notes would be to seek to apply for the Company to be wound up and enforce the security or for specific performance. This remedy is subject to various restrictions in the Intercreditor Deed

The current challenging retail environment may persist and actions by the Company's competitors in that environment may impede the Company from achieving its financial objectives

As the costs of sourcing products increases the gross margin on the Company's own branded products may be adversely affected

The Company's growth is dependent upon establishing a national footprint; new stores may not perform as expected, affecting returns to Shareholders

## **1. Details of the Rights Issue**

### **1.1 Rights Issue**

This Prospectus invites Eligible Shareholders to participate in a pro rata non-renounceable rights issue on the basis of 1 New Mandatorily Converting Note for every 5 Shares held on the Record Date at an issue price of \$0.18 per New Mandatorily Converting Note. Each New Mandatorily Convertible Note will, up until the date of conversion, bear interest at 8% per annum (in respect of interest payments that are fully franked) or 11.45% per annum (in respect of interest payments that do not carry a franking credit). The New Mandatorily Converting Notes issued by the Company will be secured by a second ranking fixed and floating charge over all of the Group's assets.

The Company may elect to accumulate the first three interest payments on the New Mandatorily Converting Notes and pay them within 30 days of the second anniversary of the date of issue of the New Mandatorily Converting Notes. If the Company elects to do so, the effective rate of return on the New Mandatorily Converting Notes for the first eighteen month period (assuming they are not converted) will be the same as if the Company had not elected to accumulate such interest payments. The number of New Mandatorily Converting Notes to which you are entitled is shown on the Entitlement and Acceptance Form accompanying this Prospectus as sent to Eligible Shareholders. Any fractional entitlement to New Mandatorily Converting Notes will be rounded up to the nearest whole number.

The Rights Issue will raise up to approximately \$7.6 million, before the costs of the Offer. This will comprise up to \$2.6 million in new subscription monies and as to the balance by capitalising a loan of \$2 million owing to Mothercare PLC and a loan of \$3 million owing to Myer Family. Refer to Section 1.5(d) for further details.

The Rights Issue will open for receipt of acceptances at 9.00am on 12 September 2011 and will close at 5.00pm on 26 September 2011, or such later date as the Directors, in their absolute discretion and subject to compliance with the Corporations Act, the Listing Rules and any other applicable laws, may determine. You should allow sufficient time to ensure that Entitlement and Acceptance Forms reach the Share Registry by the specified time.

The Rights Issue is non-renounceable. Shareholders who do not exercise their Rights will be diluted with respect to their interest in the Company.

As at the date of this Prospectus, Mothercare has 212,920,557 Shares on issue. The maximum number of New Mandatorily Converting Notes that may be issued under this Prospectus is 42,584,111 New Mandatorily Converting Notes.

### **1.2 Underwriting and Take-up**

The Company has received commitments to take up and underwrite the offer as follows:

- (a) Myer Family has agreed to take up its entitlement under the Offer, being 4,333,333 New Mandatorily Converting Notes and to underwrite a further 13,722,222 New Mandatorily Converting Notes;
- (b) Mothercare Finance has agreed to take up its entitlement under the Offer, being 9,812,700 New Mandatorily Converting Notes and to underwrite a further 4,076,189 New Mandatorily Converting Notes; and

- (c) Sarwill (a company controlled by the Chairman of the Company, Mr Robert Gavshon) has agreed to underwrite 1,388,889 New Mandatorily Converting Notes under the Offer and
- (d) Clime has agreed to take up its entitlement under the Offer, being 2,840,604 New Mandatorily Converting Notes.

The Underwriters' obligations to acquire New Mandatorily Converting Notes under the Underwriting Agreements arise after New Mandatorily Converting Notes have been allocated to Eligible Shareholders who exercise their Rights and pursuant to the Shortfall facility described in Section 1.6 of this Prospectus.

The Underwriting Agreements and Take Up Deeds are summarised in Section 5.5 of this Prospectus. The Directors of the Company (other than Mr Gavshon) consider that the terms and conditions of the Underwriting Agreement with Sarwill are as if the Company and Sarwill were dealing at arms length.

Mothercare PLC and Myer Family have also provided bridging loans to the Company in the amounts of \$2,000,000 and \$3,000,000 respectively, such loans being repayable on 31 December 2011. The loan agreements provide for the relevant lender to follow its Rights to subscribe for New Mandatorily Converting Notes and for the obligations of the Company to repay or pay the principal amount of each loan and all accrued interest to be discharged by the application of the amounts owing under the relevant loan agreement in satisfaction of the Application Monies payable by the relevant lender to the Company. The Loan Agreements are summarised in Section 5.5.

### **1.3 Terms of New Mandatorily Converting Notes**

Each New Mandatorily Converting Note will have the following rights:

- to receive interest at the rate of 8% per annum (in respect of interest payments that are fully franked) or 11.45% per annum (in respect of interest payments that do not carry a franking credit) on the amount subscribed for each New Mandatorily Converting Note such interest to accumulate and be paid by Mothercare bi-annually (with the first interest period commencing on the date of issue of the New Mandatorily Converting Notes) in arrears within 30 days of the relevant due date. The Company may elect to accumulate the first three interest payments and pay them within 30 days of the second anniversary of the date of issue of the New Mandatorily Converting Notes. At any time where such interest is due but remains unpaid, Mothercare will not declare or pay any dividend on its Shares on issue.
- the amount subscribed for each New Mandatorily Converting Note will only be repayable on a winding-up of Mothercare.
- each New Mandatorily Converting Note may be converted into one Share at the election of the Noteholder at any time, and shall convert automatically on the third anniversary of the date of issue or earlier if the Company's Share price exceeds \$0.35 for any consecutive 90 day period provided that the Company exercises this right within 30 days of the end of that period.
- the Mandatorily Converting Notes shall have no voting rights.

The New Mandatorily Converting Notes issued by the Company will be secured by a second ranking fixed and floating charge over all of the Group's assets granted by the Group in favour of the Trustee representing the Noteholders. Under the Trust Deed, the Trustee holds, for the Noteholders, the right to enforce the duties

and obligations of the Company under the Trust Deed and the Corporations Act, including the Company's duty to repay the "Moneys Owning" on the New Mandatorily Converting Notes. The security granted by the Company in favour of the Trustee is subject to the terms of the Intercreditor Deed and the terms of the Trust Deed which acknowledge that the terms of the Intercreditor Deed take priority over the Trust Deed.

The Company has also entered into the Trust Deed pursuant to which the Trustee is to act as trustee and security agent for the Noteholders as beneficial owners of the Noteholder Security. The Group has also entered into an Intercreditor Deed with ANZ in respect of the Noteholder Security. The detailed terms of the Mandatorily Converting Notes are set out in Section 5.3 and the detailed terms of the Trust Deed; Noteholder Security and Intercreditor Deed are set out in Section 5.5.

#### **1.4 Background**

In 2009, the Company acquired the Kids Central business which included an exclusive franchise to own and operate Mothercare and Early Learning Centre stores throughout Australia. In order to obtain a foothold in the Australian market, the Company also acquired the retail chains Baby On A Budget in WA and Babies Galore in NSW and Queensland. In 2010 the Company changed its name from Headline Group Limited to Mothercare Australia Limited and the Board instigated a strategy to open a number of new Mothercare stores and convert the acquired stores as expeditiously as possible.

Over the past twelve months in a challenging retail environment, management has focused on:

- (a) opening new Mothercare stores in strategic locations;
- (b) converting the Babies On A Budget and Babies Galore retail stores previously acquired. In mid August 2011, over 10,000 m<sup>2</sup> of retail space had been converted to Mothercare stores – 9 months in advance of the dates contemplated by the initial conversion program;
- (c) introducing via initial marketing efforts and its loyalty program the Mothercare brand and product range to Australian mothers and their families; and
- (d) working towards installing an appropriate management team, infrastructure, systems and personnel.

In that same period;

- (a) the Company's shareholder base has been strengthened by the inclusion of Mothercare Finance and Myer Family;
- (b) the Board has been reconstituted to enhance the Company's retail experience; and
- (c) the Company's banking relationship has been transitioned to an improved facility with ANZ.

Today, the Company is operating 52 stores across Australia and New Zealand – 22 of those being large format destinations. As the Board has articulated in previous announcements to the ASX, sales have been slower to reach projected levels due to tough retail conditions and the need for the Mothercare brand to achieve brand awareness. The lower than anticipated sales, together with the accelerated investment that the Company is making into store conversions,

systems, people and its brands, has caused the underlying business performance and resultant cash position of the Company to be adversely affected. Capital expenditure, trading losses incurred and inventory build have depleted cash resources over the past six months from \$12,251,341 at 31 December 2010 to \$3,064,256 at 30 June 2011.

The Company is compliant with its banking covenants with the exception of certain obligations (which do not involve the payment of money to ANZ) in the ANZ Facility. These breaches have been waived by ANZ, subject to certain conditions which the Company expects to fulfil.

The Company and ANZ have agreed to enter into an Amendment Deed to document certain variations to the ANZ Facility as further described in Section 5.5.

Against the lower than expected performance of the Company and current cash flow shortfall, the Board considers that the gross margin advantage being achieved due to the introduction of Mothercare's proprietary products underlines the value potential of the growth strategy.

The Board is mindful of the challenges facing the Company particularly in the current retail environment. We are, however, optimistic the Company will achieve its goals in the medium term and become a profitable market leader in its categories. The purpose of the Rights Issue is to provide the necessary resources for the Company to achieve its future objectives.

## **1.5 Use of Funds**

The funds from this capital raising strategy will be predominantly used to:

- (a) provide additional working capital for:
- the accelerated conversion program of acquired stores;
  - the post-merger integration of business systems;
  - the further development of the Company's online platforms; and
  - inventory holdings and expanded logistics requirements.

The working capital funding is required mainly due to the slower than expected sales levels across the Group.

- (b) enable more rapid expansion into additional locations that were not originally budgeted in this financial year. The current retail environment is presenting attractive leasing opportunities of which the Company wishes to avail itself.

The Board has identified key strategic areas which are still to be filled in the Company's store network plan. Some of the leasing options available align very well with the locations targeted in that plan.

- (c) finance an increased investment in marketing to establish the Mothercare and Early Learning Centre brands as top of mind destinations in the Australian mother and baby retail categories. The increased marketing expenditure will incorporate both extensive brand building and promotional elements.

With the conversion of the Babies Galore and Baby On A Budget stores – due for completion in the next two months – together with the expanded new store opening schedule, the Board considers that the

Company will have the critical mass to achieve economies of scale from a more substantial marketing spend.

The Board anticipates that this increased marketing investment will contribute to the Company making progress towards achieving its growth targets.

- (d) repay loans totalling \$5,000,000, comprising a loan of \$2,000,000 owing to Mothercare PLC and a loan of \$3,000,000 owing to Myer Family, by applying the principal amount of each loan and all accrued interest in satisfaction of Application Monies owing by the relevant lender to the Company for the New Mandatorily Converting Notes to be issued to them by the Company under the Rights Issue. Refer to the summary of Bridging Loan Agreements included in Section 5.5 for further details.

The above outlined uses of funds will contribute to the Company making progress towards achieving its growth targets.

#### **1.6 Ability for Shareholders to Participate in any Shortfall**

Eligible Shareholders, in addition to subscribing for the New Mandatorily Converting Notes to which they are entitled, may, by completing the relevant box in the Entitlement and Acceptance Form and including the appropriate Application Monies, apply for such further number of New Mandatorily Converting Notes out of any Shortfall which the Eligible Shareholder may specify in the Entitlement and Acceptance Form.

In the event that there is no Shortfall, the Application Monies relating to the Shortfall will be returned to the Eligible Shareholder as soon as practicable following the Closing Date, without interest.

If applications from Eligible Shareholders to participate in the Shortfall exceed the New Mandatorily Converting Notes available under it, those applications will be scaled back on an equitable basis at the discretion of the Company. Accordingly, Eligible Shareholders who apply for Mandatorily Converting Notes under the Shortfall may receive fewer New Mandatorily Converting Notes than the number they applied for out of the Shortfall.

In the event of a scaling back of applications to participate in the Shortfall as described in the preceding paragraph, Application Monies relating to New Mandatorily Converting Notes applied for but not issued will be returned to Eligible Shareholders as soon as practicable following the Closing Date, without interest.

#### **1.7 Proposed Placement of any Rights Issue Shortfall**

In accordance with Listing Rule 7.2, Exception 3 of the Listing Rules, the Directors of the Company reserve the right to issue the whole or any part of the Shortfall within 3 months of the date of the close of the Rights Issue at their discretion. The issue price will not be for less than \$0.18 for each New Mandatorily Converting Note.

#### **1.8 Directors' Participation**

The participation of any Director in the Shortfall, or any placement of the Shortfall will be subject to the approval of Shareholders.

## 1.9 Issue and Allotment of New Mandatorily Converting Notes

It is expected that the New Mandatorily Converting Notes are to be issued and allotted by no later than 5 October 2011.

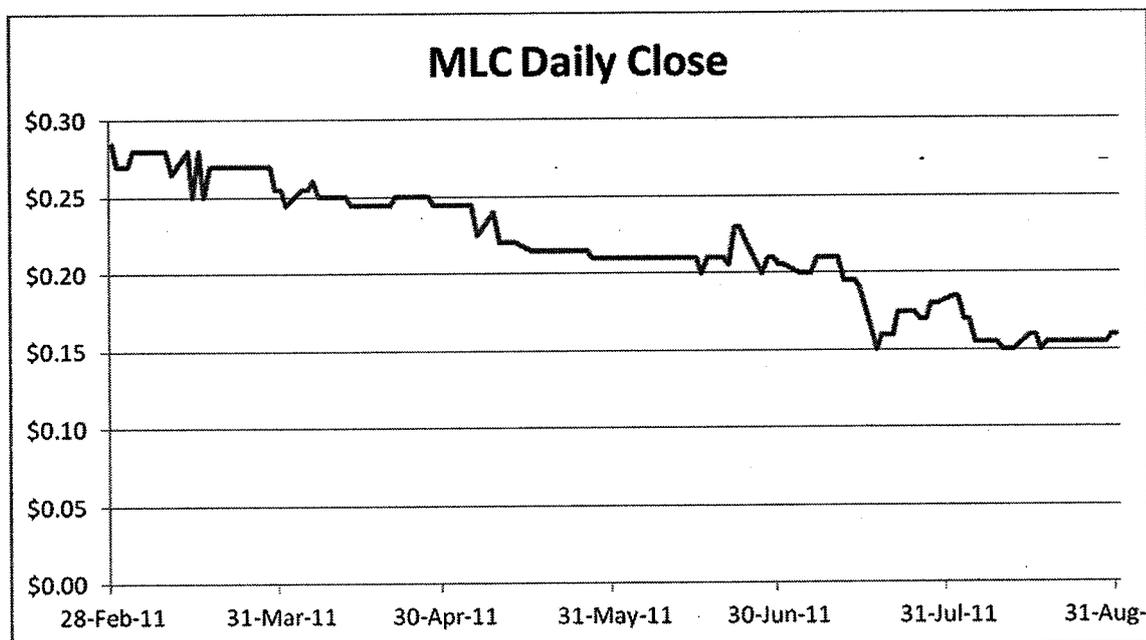
The New Mandatorily Converting Notes will be issued fully paid, and from the date of issue, will rank equally in all respects with each other. By returning your Entitlement and Acceptance Form, you agree to comply with the Constitution in respect of the New Mandatorily Converting Notes issued to you. Details of the rights attaching to the New Mandatorily Converting Notes are set out in Section 5.3.

## 1.10 Application Monies

Until the New Mandatorily Converting Notes are issued and allotted, Mothercare will hold the Application Monies on trust for applicants in a separate bank account opened and maintained for that purpose only. Any interest earned on the Application Monies will be for the benefit of Mothercare and will be retained by it irrespective of whether allotment of the New Mandatorily Converting Notes takes place.

## 1.11 Trading history of Shares on ASX

The following graph shows the price at which Shares have traded over the last 6 months:



During this period, the highest price at which Shares have traded was \$0.45 on 22 September 2010 and the lowest was \$0.15 on 17 August 2011. The closing price of the Shares on 31 August 2011, the date immediately before the date of this Prospectus, was \$0.16.

## 1.12 ASX Quotation

Mothercare will not make an application to the ASX for the official quotation of the New Mandatorily Converting Notes.

As the New Mandatorily Converting Notes will not be quoted on ASX there will be no market for them and Eligible Shareholders who take up their Rights may be unable to subsequently dispose of their New Mandatorily Converting Notes.

Mothercare will apply for official quotation by ASX of all Shares issued upon conversion of each New Mandatorily Converting Note.

### **1.13 Treatment of overseas Shareholders**

This Prospectus and the accompanying Entitlement and Acceptance Form do not constitute an offer in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer.

Mothercare is of the view that it is unreasonable to extend the Rights Issue to Ineligible Shareholders, having regard to:

- (a) the small number of Ineligible Shareholders;
- (b) the number and value of the New Mandatorily Converting Notes which would be offered to Ineligible Shareholders; and
- (c) the cost of complying with the legal requirements and the requirements of the regulatory authorities, in the respective overseas jurisdictions.

Accordingly, the Rights Issue is not being extended to any Shareholder whose registered address is outside Australia, New Zealand and England. Mothercare reserves the right to treat as invalid any Entitlement and Acceptance Form that appears to have been submitted by an Ineligible Shareholder.

In particular, this Prospectus does not constitute an offer for sale of the New Mandatorily Converting Notes in the United States or to U.S. persons. The New Mandatorily Converting Notes have not been, and will not be, registered under the U.S. Securities Act and must not be offered or sold within the United States or to U.S. persons unless they are registered under the U.S. Securities Act or an exemption from the registration requirements of the U.S. Securities Act is available.

Eligible Shareholders holding Shares on behalf of persons who are resident outside Australia, New Zealand and England are responsible for ensuring that taking up any New Mandatorily Converting Notes under the Rights Issue does not breach regulations in the relevant overseas jurisdiction. Return of a duly completed Entitlement and Acceptance Form will constitute a representation that there has been no breach of such regulations. Shareholders who are nominees are therefore advised to seek independent advice as how they should proceed. Where the Prospectus has been dispatched to a Shareholder domiciled outside Australia, New Zealand and England and where the country's securities code or legislation prohibits or restricts in any way the making of the offers contemplated by this Prospectus, this Prospectus is provided for information purposes only.

### **1.14 Taxation implications for Mothercare and Noteholders**

The Company has received advice from its tax advisors that the ATO is likely to treat the New Mandatorily Converting Notes as equity interests in accordance with Division 974 of the *Income Tax Assessment Act 1997 (Cth) (ITAA)*.

Division 974 of the ITAA 1997 prescribes several tests for determining a debt or an equity interest. For there to be a debt interest, 'there must be an effective non contingent obligation of an issuer to return the investor an amount at least equal to the amount invested.' Mothercare is unlikely to meet to meet this test given that it is issuing mandatorily converting notes that are not redeemable. Under the terms of

issue of the New Mandatorily Converting Notes, Holders of the new Mandatorily Converting Notes do not have the option to redeem the New Mandatorily Converting Notes and there is no obligation on Mothercare to return the amount subscribed for unless the Company is wound up.

As the New Mandatorily Converting Notes are deemed to be an equity interest, the terms of each New Mandatorily Converting Note provide that interest will be paid at 8% per annum if the interest payments are fully franked, or 11.45% per annum if the interest payments do not carry a franking credit.

The Company may pay the interest on a fully franked basis subject to the Company having available frankable profits to do so. The amount of available frankable profits, if any, will be determined at the time of making the payment. Available frankable profits include those made in the financial period up to the time of payment and does not necessarily mean the Company requires overall retained profits. The ability of the Company to frank the interest payments is also dependant on the underlying instrument continuing to satisfy the equity test for taxation purposes.

If the interest payments are fully franked:

- the taxation consequences for the Company will be a reduction in its franking account. The non-share equity distribution will not be tax deductible.
- Noteholders resident in Australia for tax purposes will need to include the grossed up amount of the non-share equity distribution as a franked dividend in their income tax return. The franking credit may then be used to offset any resulting tax payable, depending on the type of taxpayer involved.

If the interest payments do not carry a franking credit:

- the taxation consequence for the Company is that the non-share equity distribution will not be tax deductible.
- Noteholders resident in Australia for tax purposes will need to include the amount of the non-share equity distribution as an unfranked dividend in their income tax return.

Each Noteholder's taxation position is different and driven by a number of factors including, but not limited to, domicile. Shareholders should take their own taxation advice in relation to the Issue and its implications for them personally.

## **2. Action Required By Eligible Shareholders**

### **2.1 If you wish to take up your Rights**

(a) Taking up your Rights in full or in part

If you are an Eligible Shareholder and you wish to take up all or part of your Rights, you must accept the Offer by completing the personalised Entitlement and Acceptance Form mailed to you with this Prospectus. Your personalised Entitlement and Acceptance Form will detail your entitlement to New Mandatorily Converting Notes under the Offer. You should complete the form in accordance with the instructions set out on the reverse side of the form.

(b) Participating in any Shortfall

If you are an Eligible Shareholder and you wish to take up all of your Rights and participate in any Shortfall you must accept the Offer by completing the personalised Entitlement and Acceptance Form mailed to you with this Prospectus and specify the number of Mandatorily Converting Notes that you wish to apply for out of any Shortfall.

Your completed Entitlement and Acceptance Form must be accompanied by a cheque for the requisite Application Monies calculated at \$0.18 in aggregate for each New Mandatorily Converting Note made payable to "Mothercare Australia Limited – Rights Issue Account" following the instructions on your personalised Entitlement and Acceptance Form. Please ensure that the completed Entitlement and Acceptance Form, together with your Application Monies is received by the Share Registry **by not later than 5.00pm Sydney time on 26 September 2011** or such later date as the Directors advise.

Mothercare does not accept any responsibility for any failure by your stockbroker to carry out your instructions.

### **2.2 If you do nothing**

If you are an Eligible Shareholder and you do nothing by 5.00pm Sydney time on 26 September 2011, being the Closing Date, your Rights will form part of the Shortfall which will be taken up by Shareholders who elect to participate in the Shortfall and further by the Underwriters and you will not receive any benefit.

### **2.3 Payment of Application Monies**

You should complete your personalised Entitlement and Acceptance Form in accordance with the instructions on the form and return it accompanied by a cheque, bank draft or money order in Australian currency for the amount of the Application Monies payable to "Mother Australia Limited – Rights Issue Account" and crossed "Not Negotiable".

Your cheque, bank draft or money order must be:

- calculated at \$0.18 in aggregate for each New Mandatorily Converting Note; and
- in Australian currency draft on an Australian branch of a financial institution.

If the amount of Application Monies is insufficient to pay in full for the number of New Mandatorily Converting Notes you applied for, or is more than the number of New Mandatorily Converting Notes you applied for, you will be taken to have applied for such whole number of New Mandatorily Converting Notes which is

covered in full by your Application Monies, up to your full entitlement. Alternatively, your application will be rejected.

Any Application Monies received for more than your final allocation of New Mandatorily Converting Notes (only where the amount is \$1.00 or greater) will be refunded as soon as practicable. No interest will be paid to applicants on any Application Monies received or refunded.

Cash payments will not be accepted. Receipts for payment will not be issued.

To participate in the Offer, your payment must be received **by not later than 5.00pm (Sydney time) on 26 September 2011**. Shareholders who make payment via cheque, bank draft or money order should mail their personalised Entitlement and Acceptance Form together with Application Monies to the Company's Share Registry at the following address:

Computershare Investor Services Pty Limited  
GPO Box 253  
Sydney NSW 2001

Completed Entitlement and Acceptance Forms and Application Monies will not be accepted at Mothercare's registered office.

### **3. Effect of the Rights Issue on Mothercare**

#### **3.1 Effects of the Rights Issue on Mothercare's capital structure**

At the date of this Prospectus, Mothercare had 212,920,557 Shares on issue.

The pro-forma capital structure of Mothercare following the Rights Issue (assuming all Mandatorily Converting Notes are converted) is 255,504,668 Shares.

#### **3.2 Tax Implications for Mothercare**

The tax implications of the Offer for Mothercare are set out in Section 1.14.

#### **3.3 Pro-Forma Consolidated Statement of Financial Position**

**Mothercare Australia Limited**  
**Consolidated Statement of Financial Position**  
as at 30th June 2011



**Consolidated Entity**

	June Post Rights 2011 \$'000	June 2011 \$'000	DEC 2010 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6,918	3,064	12,251
Trade and other receivables	283	283	460
Inventories	21,297	21,297	19,990
Other assets	429	429	373
<b>Total Current Assets</b>	<b>28,927</b>	<b>25,073</b>	<b>33,074</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11,596	11,596	11,012
Intangible assets	8,737	8,737	9,224
Deferred tax assets	1,217	1,217	984
<b>Total Non-Current Assets</b>	<b>21,550</b>	<b>21,550</b>	<b>21,220</b>
<b>TOTAL ASSETS</b>	<b>50,477</b>	<b>46,623</b>	<b>54,294</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15,715	15,715	12,561
Trade finance	6,963	6,963	6,001
Provisions	2,884	2,884	2,148
Borrowings	936 *	4,513	144
Derivative financial instruments	184	184	931
<b>Total Current Liabilities</b>	<b>26,682</b>	<b>30,259</b>	<b>21,785</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	2,243 *		953
Provisions	1,159	1,159	1,017
<b>Total Non-Current Liabilities</b>	<b>3,402</b>	<b>1,159</b>	<b>1,970</b>
<b>TOTAL LIABILITIES</b>	<b>30,083</b>	<b>31,418</b>	<b>23,755</b>
<b>NET ASSETS</b>	<b>20,394</b>	<b>15,205</b>	<b>30,539</b>
<b>EQUITY</b>			
Issued Capital	63,014 *	57,825	57,825
Reserves	(2,303)	(2,303)	(2,302)
Accumulated losses	(40,317)	(40,317)	(24,984)
Equity attributable to members of Mothercare Australia Limited	<b>20,394</b>	<b>15,205</b>	<b>30,539</b>

\* Accounting Treatment of Rights Convertible Note in Line with AASB 132

The post rights Statement of Financial Position takes account of the rights issue in accordance with Australian Accounting Standard AASB 132: Financial Instruments Presentation. The rights issue is estimated to raise \$7.6m, with this inflow being offset by anticipated transaction costs of \$0.25m. The accounting treatment of the issued mandatorily converting notes is such that there is an increase in equity of \$5.15m, and a split of the \$2.2m balance between Short and Long Term borrowings per AASB 132. The mandatorily converting notes are treated as compound financial instruments, whereby the debt component of the notes is effectively derived by calculating the Present Value of the interest that will be paid on the notes, with the remaining portion of the \$7.6 m being classified as equity. In addition, it should be noted that post the rights issue, \$0.88m of the ANZ loan will be reclassified as long Term Borrowings, as the ANZ Bank will waive any covenant breaches upon completion of the rights issue.

## 4. Risk Factors

The Company is subject to a number of risks and other factors of a general nature as well as those which relate specifically to the Company that may individually or in combination adversely affect the future operating and/or financial performance of the Company, its investment returns and the value of its Shares. The New Mandatorily Converting Notes issued under this Offer do not carry any guarantee of profitability, dividends or the price at which the Shares into which they are to convert trade on ASX.

The Directors consider that the following summary, which is not exhaustive, represents some of the major risk factors of which investors need to be aware. However, before taking up any Rights or investing in the Company, the Directors strongly recommend that investors examine the contents of this Prospectus in its entirety and information about the Company and consult their professional advisers before deciding whether to subscribe for New Mandatorily Converting Notes pursuant to this Offer.

### 4.1 General

As with all stock market investments, there are risks associated with an investment in the Company. Share prices may rise or fall and the price of Shares might trade below or above the issue price for the New Mandatorily Converting Notes under this Prospectus.

General factors that may affect the market price of the Shares include:

- economic conditions in both Australia and internationally;
- investor sentiment and local and international share market conditions;
- changes in interest rates and the rate of inflation;
- changes to government regulation, policy or legislation;
- changes in exchange rates; and
- the nature of competition in the industry in which the Company operates.

### 4.2 Specific risks relating to Mothercare

#### (a) No Market for Notes

The New Mandatorily Converting Notes will not be listed on ASX. Accordingly, there will be no market in the New Mandatorily Converting Notes. If a Noteholder requires to liquidate its holding of New Mandatorily Converting Notes it may be forced to convert them into Shares which may have a market price of less than the issue price of the New Mandatorily Converting Notes. Please refer below to Section 4.2(n) for a summary of stock market risks.

#### (b) Second Ranking Security

The Noteholder Security is second ranking after security held by ANZ as security for the ANZ Facility. The security for the ANZ Facility takes priority over the Noteholder Security. Accordingly, the returns to Noteholders on a winding up of the Company will depend on the available proceeds of a realisation of the assets of the Company after repaying the ANZ Facility.

(c) Recovery Risks

If the Company does not meet any interest payment when due or does not convert the New Mandatorily Converting Notes into ordinary shares when required by the terms of the New Mandatorily Converting Notes, the New Mandatorily Converting Notes do not become repayable, unless the Company is placed into liquidation. Accordingly, if at the time of such default the Company is not in liquidation the only remedies available to the Trustee on behalf of the Noteholders would be to seek a Court order, either for the winding up of the Company for which case the Trustee on behalf of the Noteholders could exercise the Noteholder Security to recover the face value of the New Mandatorily Converting Notes and accumulated but unpaid interest on the New Mandatorily Converting Notes or for specific performance.

(d) Retail Environment and General Economic Conditions May Deteriorate

The Australian retail environment is experiencing challenging conditions due to the volatility in consumer sentiment and retail demand. There is a risk that, with the uncertainty relating to, amongst other things, the international economic outlook and the rising cost of living in Australia with the proposed carbon price scheme, flood levies, interest rates increase, a further reduction in discretionary household expenditure could occur. This reduction may cause the current challenging retail environment to persist and impede Mothercare from achieving its future objectives.

(e) Increase in Mothercare Brand Awareness and Ramp Up in Sales

Since opening the first Mothercare store in the second quarter of 2010, the Company has been focused on establishing a national footprint. Following the imminent conversion of stores acquired to the Mothercare brand, Mothercare has begun in earnest to launch the Mothercare brand Australia wide. While targeted marketing efforts to date have shown positive responses, there is a risk that if the increased marketing investment does not have the expected impact on brand awareness, there may be an adverse impact on Mothercare's sales and financial performance.

(f) Mothercare's Competitive Position

As Mothercare's product range, including its proprietary brands, spans mother and baby "hard" goods (prams, cots, car seats, baths, etc), baby consumables, apparel and toys, the Company has a wide range of competitors including department stores, discount department stores, supermarkets, speciality retailers, independent local operators and online-only businesses.

Competition is based on factors including price, advertising, store location and customer service. Actions by competitors with respect to these factors; for example, increased advertising and enhanced customer service may adversely impact Mothercare's position in the market. In particular, the persistence of the difficult retail conditions may lead to an increased focus on more aggressive price-based competition – particularly from discount department stores and online retailers looking to grow their market share. While the Company would clearly take action to respond to competitive initiatives, deterioration in the competitive position of Mothercare may impact its future financial performance.

(g) New Store Opening Success

Mothercare's growth is in part dependent on the successful opening of new stores in strategic locations. When opening stores, the Company reviews such factors as local demographics, customer traffic flows, expected catchment areas, and competitor locations. There is a risk that new stores that are opened do not experience the rate of growth or reach the level of anticipated activity that is

expected. Variations in the performance of the new stores from projections would impact the ability of the Company to achieve its financial objectives.

(h) Mothercare Branded Product Cost Increases

Mothercare's competitive advantage with respect to gross margin is driven by the fact it is part of an international group sourcing products directly from manufacturers. Given that the Company sources products from nations such as China and India where wage inflation and the cost of production is increasing, there is a risk that the gross margin on the Company's own-branded products may be affected. This risk may be mitigated by the fact that Mothercare is continually reviewing its options for sourcing product on the basis of price and location of manufacturers in order to manage cost increases, and by the fact that all competitors may face similar issues.

(i) Foreign Currency Fluctuations

Mothercare sources a significant proportion of its product from Mothercare PLC and pays for such product in foreign currency, predominantly US dollars and UK pounds. While the Company engages in foreign currency hedging which limits its exposure, adverse movements in exchange rates may have a negative effect on the Company's future financial performance.

(j) Post Merger Integration

Mothercare is currently undergoing a post-merger integration process following the acquisitions of the Baby On A Budget business and Babies Galore business in the fourth quarter of 2010. There is a risk that this process requires greater time and resources than initially anticipated by the Board, particularly as it relates to organisational change and systems integration. A delay in this process and/or the need for additional resources to complete the required integration processes would have a short term impact on the Company's earnings and profitability.

(k) Force Majeure Events

Acts of terrorism, outbreaks of international hostilities, labour strikes, and natural disasters such as floods, earthquakes, or fires may cause an adverse change in consumer and/or investor sentiment such that the financial performance of the Company and/or the value of an investment in the Company could be adversely impacted.

(l) Taxation

The Company's profitability may be affected by changes in Australian and other governments' taxation laws and policies.

(m) Other Risk Factors

Other risk factors include those normally found in conducting business including litigation resulting from the breach of agreements or in relation to employees (through personal injuries, industrial matters or otherwise) or any other cause, strikes, lockouts, loss of service of key management or operational personnel, non-insurable risks, delay in resumption of activities after reinstatement following the occurrence of an insurable risk and other matters that may interfere with the business or trade of the Company.

(n) Stockmarket Risks

The market price of Shares in the Company may be significantly adversely affected by a variety of factors including (but not limited to) perceptions of, or variations in,

general market conditions, operating performance, commodity prices, project and country risk, Board and management strength and expertise and a broad range of other factors which may or may not relate to the operations of the Company.

#### **4.3 Summary**

The above list of risk factors ought not be taken as exhaustive of the risks faced by the Company or its Shareholders. 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 its securities.

Before any decision is made to subscribe for the New Mandatorily Converting Notes, the above matters, and all other matters described in this Prospectus must be carefully considered.

The New Mandatorily Converting Notes to be allotted pursuant to this Prospectus should be regarded as speculative in nature and carry no guarantee with respect to the payment of dividends, return of capital or their market value.

Investment in the Company is regarded as speculative and neither the Company nor any of its Directors guarantees that any specific objective of the Company will be achieved or that any particular performance of the Company or its securities, including the New Mandatorily Converting Notes offered by this Prospectus, will be achieved.

## **5. Additional Information**

### **5.1 Transaction specific prospectus**

Under the Corporations Act, disclosing entities are entitled to issue a prospectus satisfying the disclosure test set out in section 713 of the Corporations Act where the securities offered by the prospectus are “continuously quoted securities” or options over “continuously quoted securities” or by virtue of ASIC Class Order 00/195 convertible securities which are convertible into “continuously quoted securities”, as defined in section 9 of the Corporations Act. Such a prospectus is referred to as a “transaction specific” prospectus.

This Prospectus is a “transaction specific” prospectus, issued pursuant to section 713 of the Corporations Act and ASIC Class Order 00/195 which extends the concession provided by section 713 to the offering of convertible notes.

In addition to formal matters, a transaction specific prospectus need only contain information relating to the terms and conditions of the Rights Issue and all such information which investors and their professional advisers would reasonably require, and reasonably expect to find in the Prospectus, for the purpose of making an informed assessment of:

- (a) the effect of the Rights Issue on Mothercare; and
- (b) the rights and liabilities attaching to the New Mandatorily Converting Notes.

Section 713 also requires a “transaction specific” prospectus to contain certain information excluded from continuous disclosure under the Listing Rules. Mothercare has not excluded any such information from disclosure under the Listing Rules and this requirement is therefore not relevant to this Prospectus.

### **5.2 Continuous disclosure and documents available for inspection**

Mothercare is a “disclosing entity” for the purposes of section 111AC of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations. These disclosure obligations require Mothercare to disclose to the ASX any information that a reasonable person would expect to have a material effect on the price or value of the securities of Mothercare.

Mothercare believes that it has complied with the requirements of the ASX (as applicable from time to time throughout the 12 months before the Rights Issue and this Prospectus) which require Mothercare 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.

Copies of documents lodged with ASIC in relation to Mothercare may be obtained from, or inspected at, an office of ASIC.

Mothercare will provide a copy of the following documents free of charge, to any person who requests a copy during the period in which the Rights Issue remains open:

- (a) Appendix 4E preliminary final report;
- (b) the annual financial report for the financial year ended 30 June 2010 (being the last annual financial report to be lodged with ASIC by Mothercare before the issue of this Prospectus);

- (c) the half year financial report lodged with ASIC after lodgement of the annual financial report and before the lodgement of the copy of this Prospectus with ASIC; and
- (d) all continuous disclosure notices given by Mothercare to ASX since the lodgement of the annual financial report referred to in paragraph (a) above and before the lodgement of this Prospectus with ASIC, being the following documents:

<b>Date Lodged</b>	<b>Document Description</b>
31/08/2011	Appendix 4E
29/06/2011	Company Secretary Appointment/Resignation
29/06/2011	Details of Company Address
28/03/2011	CIW: In Specie dividend and notice of change in Constitution
02/03/2011	Half Yearly Report and Accounts amended to include % changes
01/03/2011	Half Yearly Report and Accounts
07/02/2011	Change in substantial holding
20/01/2011	Becoming a substantial holder
19/01/2011	Change of Director's Interest Notice
19/01/2011	Appendix 3B
18/01/2011	Note Conversion - Issue of Ordinary Shares
10/01/2011	Change in substantial holding
10/01/2011	Change of Director's Interest Notice
23/12/2010	Change of Company Name
20/12/2010	Securities Trading Policy
16/12/2010	Change of Director's Interest Notice
09/12/2010	Appointment of Chief Financial Officer
07/12/2010	Initial Director's Interest Notice
02/12/2010	Initial Director's Interest Notice
01/12/2010	Director Appointment/Resignation
01/12/2010	Change in substantial holding
01/12/2010	Company Secretary Appointment/Resignation
30/11/2010	Initial Director's Interest Notice
30/11/2010	Initial Director's Interest Notice
30/11/2010	Final Director's Interest Notice
30/11/2010	Final Director's Interest Notice
30/11/2010	Director Appointment/Resignation
30/11/2010	Results of Meeting
30/11/2010	Change in substantial holding from CIW
30/11/2010	Change in substantial holding

30/11/2010	Managing Director's Presentation at AGM
30/11/2010	Chairman's Address to Shareholders
29/11/2010	Appendix 3B
23/11/2010	Appendix 3B
17/11/2010	Change of Director's Interest Notice
17/11/2010	Shareholder Update
28/10/2010	Notice of Annual General Meeting/Proxy Form
15/10/2010	Response to ASX Query
13/10/2010	Initial Director's Interest Notice
11/10/2010	Appendix 3B
06/10/2010	Becoming a substantial holder
05/10/2010	Ceasing to be a substantial holder
05/10/2010	Change in substantial holding from CIW
05/10/2010	Initial Director's Interest Notice
01/10/2010	Change in substantial holding
01/10/2010	Appendix 3B
01/10/2010	Annual Report to shareholders

If investors require any further information in relation to Mothercare, the Directors recommend that they take advantage of the ability to inspect or obtain copies of the documents referred to above. Requests for copies of the above documents should be made to Mothercare's Company Secretary, on telephone + 61 2 9332 9900.

### 5.3 Rights attaching to New Mandatory Converting Notes

There is only one class of shares on issue in Mothercare being fully paid ordinary shares, into which the New Mandatorily Converting Notes will convert.

The rights attaching to the Shares are:

- (a) set out in the Company's Constitution, a copy of which is available at [www.asx.com.au](http://www.asx.com.au); and
- (b) in certain circumstances, regulated by the Corporations Act, the Listing Rules, the ASTC Settlement Rules and general law.

The following are the terms of the New Mandatorily Converting Notes:

- (a) each New Mandatorily Converting Note may be converted into one Share at the election of the Noteholder at any time by written notice of conversion to Mothercare, and shall convert automatically on the third anniversary of the date of issue or earlier if the Company's share price exceeds \$0.35 for any consecutive 90 day period provided that the Company exercises this right within 30 days;
- (b) interest will be payable by Mothercare at the rate of 8% per annum (in respect of interest payments that are fully franked) or 11.45% per annum (in respect of interest payments that do not carry a franking credit) on the amount subscribed for each New Mandatorily

Converting Note during the period from the date of issue until the conversion of each New Mandatorily Converting Note. Such interest will accumulate and be paid by Mothercare biannually (with the first interest period commencing on the date of issue of the New Mandatorily Converting Notes) in arrears within 30 days of the due date. The first three interest payments may, at the Company's option, accumulate and be paid within 30 days of the second anniversary of the date of issue of the New Mandatorily Converting Notes;

- (c) the New Mandatorily Converting Notes shall have no voting rights;
- (d) the New Mandatorily Converting Notes will be secured by a second ranking fixed and floating charge granted by the Company in favour of the Trustee (representing the Noteholders). The security granted by the Company in favour of the Trustee is subject to the terms of the Intercreditor Deed and the terms of the Trust Deed which acknowledge that the terms of the Intercreditor Deed take priority over the Trust Deed;
- (e) each Noteholder may prove in any winding-up of the Company for the face value of each New Mandatorily Converting Note held by that Noteholder which had not been converted into Shares in accordance with paragraph (a) by the date of commencement of such winding-up, together with all accumulated but unpaid interest in respect of the New Mandatorily Converting Notes as at the date of such winding-up;
- (f) all Shares issued pursuant to the conversion of each New Mandatorily Converting Note will be allotted within 2 Business Days after the conversion of the relevant New Mandatorily Converting Notes and will rank pari passu in all respects with Mothercare's then existing Shares. Mothercare will apply for official quotation by ASX of all Shares issued upon conversion of each New Mandatorily Converting Note on or before the third Business Day on which ASX is open after the date of allotment of the Shares. Mothercare will procure that a holding statement for the Shares is given to the Noteholder in accordance with the ASTC Settlement Rules;
- (g) there are no participating rights or entitlements inherent in the New Mandatorily Converting Notes and the Noteholder will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the New Mandatorily Converting Notes;
- (h) the Company may only reorganise its capital if, the number of Mandatorily Converting Notes or the conversion price or both are reorganised so that the Noteholder of the Mandatorily Converting Notes will not receive a benefit that Shareholders in the Company do not receive. This clause does not prevent a rounding up of the number of Shares to be received on conversion if the rounding up is approved at a meeting of the Shareholders of the Company which approves the reorganisation;
- (i) if and to the extent any of the preceding terms and conditions are inconsistent with the Listing Rules, such rules will prevail in all respects to the extent of the inconsistency; and
- (j) the terms and conditions of each New Mandatorily Converting Note are governed by the laws of the State of New South Wales and the each Noteholder unconditionally submits to the jurisdiction of the courts of that State and courts of appeal from them.

#### **5.4 Litigation**

The Company is not engaged in any litigation and does not have any claims against it.

#### **5.5 Material Contracts**

##### ***Trust Deed***

The Company and the Trustee entered into the Trust Deed on 31 August 2011.

The Trust Deed sets out the terms upon which the Trustee represents the rights of the Noteholders under the New Mandatorily Converting Notes, including the right to enforce the Company's obligation to repay the amount of the New Mandatorily Converting Notes together with all accumulated but unpaid interest, if the Company is wound up.

The Trust Deed contains a number of covenants given by the Company to the Trustee for the benefit of Noteholders including covenants to:

- carry on and conduct its business in a proper and efficient manner;
- maintain its corporate existence;
- maintain proper accounts;
- provide information to the Trustee and to Noteholders;
- notify the Trustee if the Trust Deed has not been complied with; and
- comply with the terms of issue of the New Mandatorily Converting Notes.

One of the Company's obligations under the Trust Deed is to report as required under section 283BF of the Corporations Act on a quarterly basis. The report must include a statement as to whether an event has occurred, which would cause the Noteholder Security referred to below to become enforceable or the New Mandatorily Converting Notes to be repayable.

The Trust Deed provides that the Trustee may only enforce the Noteholder Security on the winding-up of the Company, subject to the Intercreditor Deed.

The Trust Deed also provides for the method of transfers of New Mandatorily Converting Notes, the procedures for Noteholder meetings and other usual provisions.

The Trustee has no obligation to notify Noteholders of an event of default or take any steps to ascertain whether an event of default has occurred.

Subject to the Trustee's duties under the Corporations Act, the Trustee has no obligation to monitor compliance by the Company with its covenants and obligations under the Trust Deed or under the Noteholder Security or keep itself informed about the circumstances of the Company.

##### ***Noteholder Security***

Each member of the Group is party to a Group Deed of Charge and Mortgage dated 31 August 2011, pursuant to which each company agreed to grant a security in favour of the Trustee over all of its present and future undertakings, assets and rights including all real and personal property, things in action, goodwill, and uncalled and called but unpaid capital wherever located.

The provision of the Noteholder Security secures the payment of all debts and monetary liabilities of each member of the Group to the Trustee under or pursuant to the terms and conditions applicable to the New Mandatorily Converting Notes set out in paragraph 5.3 above and the Trust Deed. The Trustee does not guarantee the payment of interest on the New Mandatorily Converting Notes.

### ***ANZ Facility***

Pursuant to the ANZ Facility, ANZ agreed to provide certain financing facilities of up to in aggregate \$ 11,700,000.00 (each a **Facility** and together the **Facilities**).

The Facilities are subject to annual review by ANZ, at which time ANZ may decide to continue the Facilities, either on the same or varied terms or to discontinue one or more the Facilities. In the event that ANZ discontinues one or more of the Facilities, the ANZ Facility provides that the Group has 45 days from the date on which ANZ notifies the Group that it is no longer willing to provide a Facility to repay all monies owing to ANZ under that Facility. In the event that the Group does not accept any varied terms proposed by ANZ as part of the annual review by the specified date, the ANZ Facility provides that the Group has 30 days from the date on which the Group is required to accept the revised terms to repay all monies owing to ANZ under that Facility.

Under the ANZ Facility, the Group must notify ANZ as soon as it becomes aware of a number of events, including:

- any default or review event occurring in relation to the Group;
- any material breach or default under or termination or rescission of various significant contracts to which the Group is party specified in the ANZ Facility;
- any litigation, arbitration or other proceeding commenced or threatened in relation to any member of the Group which may have a material adverse effect on the Group or which is expected to have a potential cost exceeding \$250,000; and
- if any person or entity acquires a relevant interest (as that term is defined in the Corporation Act) in more than 10% of the Shares of the Company or if any person having a relevant interest in more than 10% of the Shares in the Company reduces its relevant interest.

The ANZ Facility also provides that the Group must not, without the prior consent of ANZ do certain things, including:

- sell, assign, transfer or otherwise dispose of any of its assets other than asset disposals in the ordinary course of day-to-day trading, disposals to a wholly-owned subsidiary (provided the subsidiary is or becomes a guarantor under the ANZ Facility), disposals in exchange for assets of comparable value, disposals of obsolete assets or disposals where the aggregate value of all assets disposed does not exceed \$200,000 in any financial year;
- enter into any arrangement which would prevent any member of the Group from complying with its obligations under its arrangements with ANZ; and
- not enter into any amalgamations, demergers, merger or corporate reconstruction.

The ANZ Facility contains all the usual events of default for facilities of this kind. If in any member of the Group is in default, ANZ may at any time, by written notice to

the relevant member of the Group, terminate the Facilities and declare that all loans are immediately payable. The Trustee has not been provided with the ANZ Facility.

The Company and ANZ have agreed to enter into an Amendment Deed in respect of the ANZ Facility pursuant to which the ANZ Facility is to be amended to provide:

- (a) for Mothercare to supply its unaudited accounts and a store analysis on a monthly basis (as opposed to quarterly as is required under the current ANZ Facility);
- (b) that Mothercare must ensure that its actual EBITDA, sales revenue and gross profit are not less than 75% of the EBITDA, sales and gross profit specified in the budgeted financial report provided by Mothercare to ANZ for the ensuing financial year. Mothercare's compliance with these covenants is to be tested quarterly with respect to the period beginning on the first day of the relevant financial year and ending on the 31 March, 30 June, 30 September and 31 December in each year; and
- (c) that a breach of any of the financial covenants referred to in paragraph (c) above in respect of the period commencing on 1 July 2011 and ending on 31 December 2011 will constitute a Review Event for the purposes of the ANZ Facility and an event of default will be deemed to have occurred if Mothercare and ANZ have not agreed a strategy or action to rectify the circumstances giving rise to such Review Event by 15 February 2012.

#### ***Group Deed of Charge and Mortgage in favour of ANZ***

Each member of the Group is party to a Group Deed of Charge and Mortgage dated 14 December 2010, pursuant to which each company agreed to grant a security in favour of ANZ over all of its present and future undertakings, assets and rights including all real and personal property, things in action, goodwill, and uncalled and called but unpaid capital wherever located.

The provision of the Group Deed of Charge and Mortgage secures the payment of all debts and monetary liabilities of each member of the Group to ANZ on any account and in any capacity.

#### ***Intercreditor Deed***

ANZ, the Trustee and each member of the Group are party to an Intercreditor Deed dated 31 August 2011 pursuant to which:

- (a) the rights and claims of the Trustee to all amounts payable by the Company to the Trustee pursuant to the Trust Deed and Noteholder Security (referred to in the Intercreditor Deed as the **Second Debt**) are subordinated and postponed to the rights and claims of ANZ in respect of any amount payable by any member of the Group under the ANZ Facility (referred to in the Intercreditor Deed as the **First Debt**); and
- (b) the Group Deed of Charge and Mortgage (and any other security) granted by the Group to ANZ (referred to in the Intercreditor Deed as the **First Securities**) will rank in priority to the Noteholder Security and any other security granted by the Group to the Trustee (referred to in the Intercreditor Deed as the **Second Securities**),

until the later of the date on which the First Debt is fully and finally paid and the date on which the First Securities are fully discharged.

The Intercreditor Deed further provides that the Trustee must not amend, replace, vary or supplement the Trust Deed, the Second Securities or the terms of issue of the New Mandatorily Converting Notes, without the prior written approval of ANZ, if such variation would adversely affect ANZ's right or interest under the Intercreditor Deed or any "Transaction Document" as defined in the ANZ Facility.

### ***Underwriting Agreements***

The Company and the Underwriters entered into the Underwriting Agreements on 31 August 2011, pursuant to which the Underwriters severally agreed to partially underwrite the Offer to the extent of \$3,453,714 after Eligible Shareholders have participated in the Shortfall facility described in Section 1.6 of this Prospectus.

Each Underwriter may terminate its underwriting liability in the following circumstances:

- if any of the following occurs:
  - the introduction of legislation into Parliament of the Commonwealth of Australia or any State or Territory of Australia;
  - the public announcement of prospective legislation or policy by the Federal Government or the Government of any State or Territory of Australia; or
  - the adoption by ASIC or its delegates or the Reserve Bank of Australia of any regulations or policy, where such event does or is likely to prohibit or restrict the Offer;
- if the Company defaults under any of the Underwriting Agreements and that default is either incapable of remedy or is not remedied within 5 Business Days after it occurs;
- if the Company's shares are delisted, removed from quotation, or suspended from quotation (other than a voluntary suspension or trading halt requested by the Company and consented to by the Underwriter);
- if there is a change in the board of directors or senior management of the Company, without the prior consent of the Underwriter;
- if the All Ordinaries Index of the ASX falls by more than an amount that is 15% or more of the level at the close of trading on the date of the relevant Underwriting Agreement;
- if there is a material adverse change in the financial position, results, operations or prospects of the Company;
- if any matter or circumstance renders inaccurate, misleading or deceptive in any material respect, any information or statement contained in this Prospectus or any announcement, advertisement, report, notice, letter of entitlement, publication or disclosure concerning the Offer made or issued by the Company;
- if an order is issued suspending or cancelling the issue or use of this Prospectus or preventing the Company from issuing this Prospectus or the New Mandatorily Converting Notes, by any government agency having jurisdiction in respect of the Offer;

- if any distress is levied or a judgment, order or encumbrance is enforced or becomes enforceable by the giving of notice, lapse of time or fulfilment of any condition, against any property of the Company, for a sum exceeding \$500,000;
- if an insolvency event (as defined in each Underwriting Agreement) occurs in respect of the Company or any subsidiary of the Company;
- if there is a change in the Company's share capital or its constitution except as a result of the issue of the New Mandatorily Converting Notes without the prior written consent of the relevant Underwriter;
- if there is an event or occurrence, including any statute, order, rule, regulation, directive or request of any government agency, compliance with which is in accordance with the general practice of persons to whom the request is addressed, which makes it illegal for the Underwriter to satisfy a material obligation under the relevant Underwriting Agreement, or to market, promote or settle the Offer; or
- if the Company is or will be prevented from conducting or completing the Offer by or in accordance with the Listing Rules, ASIC, ASX, any applicable laws or an order of a court of competent jurisdiction.

### ***Take Up Deeds***

The Company and each of Myer Family, Mothercare Finance and Clime entered into the Take Up Deeds on 31 August 2011, pursuant to which each of Myer Family, Mothercare Finance and Clime agreed to take up their respective entitlements under the Offer.

The Take Up Deeds with respect to Myer Family and Mothercare Finance provide that the principal amounts of the loans and all loan moneys under the Loan Agreements will, in accordance with the terms of the Loan Agreements, be applied in satisfaction of the Application Monies payable by Myer Family and Mothercare Finance to the Company in respect of taking up their respective entitlements under the Offer.

### ***Bridging Loan Agreements***

The Company entered into a Loan Agreement with Mothercare PLC on 9 June 2011 pursuant to which Mothercare PLC agreed to provide an unsecured advance in the amount of \$2,000,000 to the Company.

On 8 June 2011, the Company also entered into a Loan Agreement with Myer Family pursuant to which Myer Family agreed to provide an unsecured advance in the amount of \$3,000,000 to the Company.

The Loan Agreements are on substantially the same terms. Each Loan Agreement is subject to the condition that the other Loan Agreement has been duly executed by the relevant parties. They each provide that the loan is for working capital and other proper general corporate purposes. Interest is payable on the outstanding loan advanced pursuant to each Loan Agreement at a rate of 10% per annum.

The Company must repay to each lender in full the principal amount of the loan on 31 December 2011 (**Repayment Date**). The Loan Agreements provide that the relevant lender will follow its Rights to subscribe for securities in the capital of the Company pursuant to the Rights Issue on or prior to the Repayment Date. The principal amount of the loan and all accrued interest will be applied in satisfaction of Application Monies owing by the relevant lender to the Company for the New

Mandatorily Converting Notes to be issued to them by the Company under the Rights Issue.

## 5.6 Expenses

The expenses of the Rights Issue payable by the Company, including legal and accounting fees and share registry costs, are estimated to amount to approximately \$215,000 comprising:

Advisory fees	\$30,000
Legal Adviser	\$110,000
Accounting and tax	\$25,000
Other	\$50,000

## 5.7 Interests of Directors

Except as disclosed in this Prospectus:

- (a) no Director (nor any entity with which a Director is associated) or promoter of Mothercare has or had within two years before the date of this Prospectus, any interest in:
- (i) the formation or promotion of Mothercare;
  - (ii) property acquired or proposed to be acquired by Mothercare in connection with its formation, promotion or the Rights Issue; or
  - (iii) the Rights Issue.
- (b) no amount has been paid or agreed to be paid and no benefit has been given or agreed to be given to any Director either to induce him to become, or to qualify him as a Director or otherwise for services rendered by him in connection with the formation or promotion of Mothercare or the Rights Issue.

## 5.8 Directors' Interests in Securities

As at the date of this Prospectus, the Directors' interests in the securities of Mothercare are as follows:

Director	No. of Shares	No. of Options
Robert Gavshon	Nil	Nil
Brent Dennison	11,823,962	Nil
Donald Bartlett	Nil	Nil
Jerry Cull	Nil	Nil
Mike Lewis	5,373,748	Nil

David Shelmerdine	Nil	Nil
Chester Moynihan	Nil	Nil

Directors will be eligible to participate in the Rights Issue.

#### 5.9 Interests of advisers

Except as set out elsewhere in this Prospectus, no 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, promoter, or stockbroker to Mothercare or any Underwriter has, or had within two years before lodgement of this Prospectus with ASX any interest in:

- (a) the formation or promotion of Mothercare;
- (b) property acquired or proposed to be acquired by Mothercare in connection with its formation, promotion or the Rights Issue;
- (c) the Rights Issue,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any of those persons for services rendered by him or her in connection with the formation or promotion of Mothercare or the Rights Issue.

#### 5.10 Consents

Each of the parties referred to as consenting parties who are named below:

- (a) has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named;
- (b) has not made any statement in this Prospectus or any statement on which a statement made in this Prospectus is based; and
- (c) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Prospectus, other than the reference to its name.

The following parties are consenting parties:

- Kemp Strang – as legal advisor
- PKF Chartered Accountants and Business Advisors – as Auditor
- Mothercare Finance, Myer Family and Sarwill – as Underwriters
- Clime – as a Shareholder taking up its rights under the Rights Issue
- Mr Robert de Lorenzo as Company Secretary
- Computershare Investor Services Pty Limited – as Share Registry

The Trustee:

- (a) has not made any statement or purported to make any statement in this Prospectus or any statement on which a statement in this Prospectus is based, other than as specified below;
- (b) to the maximum extent permitted by law, expressly disclaims all liability in respect of, makes no representation or any statement regarding, and takes no responsibility for, any part of this Prospectus, or any statements in, or omissions from the Prospectus, other than the references to its name and the statement(s) and/or report(s) (if any) specified below and included in this Prospectus with its written consent; and
- (c) has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent:
  - (i) to be named in this Prospectus in the form and context in which it is named; and
  - (ii) to the inclusion in this Prospectus of the statement(s) and/or report(s) (if any) by that person in the form and context in which they appear in this Prospectus.

#### 5.11 Privacy statement

By completing the Entitlement and Acceptance Form to apply for New Mandatorily Converting Notes, you are providing personal information to Mothercare.

The *Privacy Act 1988* (Cth) regulates the way Mothercare collects, uses, disposes, keeps secure and gives people access to their personal information.

Mothercare is committed to respecting the privacy of your personal information. Mothercare collects, holds and uses that personal information in order to process your application and to administer your shareholding and noteholding in Mothercare, including:

- (a) Mothercare setting up and maintaining a register of Shareholders and a register of Noteholders in accordance with the Corporations Act;
- (b) Mothercare communicating with you, such as sending you annual reports, notices of meetings and any other documents which Mothercare wishes to send to you as a Shareholder and Noteholder;
- (c) Mothercare carrying out general administration, including monitoring, auditing, evaluating, modelling data, dealing with complaints and answering queries; and
- (d) Mothercare complying with its legal and regulatory obligations.

If you do not provide the information requested in the Entitlement and Acceptance Form, Mothercare may not be able to process or accept your application for New Mandatorily Converting Notes.

Your personal information may also be provided to Mothercare's agents or service providers. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be disclosed are:

- (a) the Share Registry for ongoing administration of the share register;

- (b) printers and mail houses for the purposes of preparation and distribution of documents to you and for handling mail;
- (c) professional service advisers such as lawyers, accountants, auditors and other professional advisers for the purpose of administering, and advising on, the New Mandatorily Converting Notes and for any associated actions; and
- (d) other companies where Mothercare believes it is more efficient to outsource services or functions to those companies.

Your personal information may be provided to certain third parties. The types of third parties that may be provided with your personal information, and the circumstances in which your personal information may be disclosed, are:

- (a) your financial adviser or broker (other than your tax file number information) in connection with services provided to you by your adviser or broker;
- (b) government, regulatory authorities or other people when permitted or required by law, such as ASIC or people inspecting the Share register in accordance with the Corporations Act;
- (c) ASX; and
- (d) in certain circumstances and with safeguards to respect your privacy, potential or actual purchasers of an interest in Mothercare or Mothercare's business or any part thereof.

You have the right to gain access to your personal information held by, or on behalf of, Mothercare, subject to certain exemptions under the law. You may be required to pay a reasonable charge in order to access your personal information. You can request access to your personal information by telephoning or writing to the Company Secretary as follows:

Level 1  
Building 220/2A  
The Entertainment Quarter  
122 Lang Road  
Moore Park NSW 2021

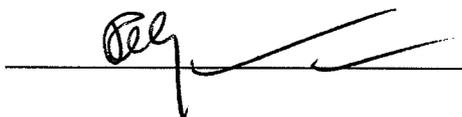
Telephone: + 61 2 9332 9900

## 6. Authorisation

This Prospectus has been approved by a resolution passed by the Board of Directors of Mothercare Australia Limited on 31 August 2011.

Signed by a Director of Mothercare Australia Limited in accordance with section 351 of the Corporations Act.

Dated: 1 September 2011



## 7. Defined Terms and Interpretation

### 7.1 Definitions

The following definitions apply in interpreting this Prospectus, except where the context makes it clear that a definition is not intended to apply:

<b>Announcement Date</b>	means 1 September 2011, being the date of Mothercare's announcement of the Offer.
<b>ANZ</b>	means Australia and New Zealand Banking Group Limited ABN 11 005 357 522.
<b>ANZ Facility</b>	means the Secured Facility Agreement dated 14 December 2010 between the Group as Borrowers and Initial Guarantors and ANZ as Financier.
<b>Application Monies</b>	means the monies received from persons applying for New Mandatorily Converting Notes pursuant to the terms of the Rights Issue.
<b>ASIC</b>	means Australian Securities & Investments Commission.
<b>ASTC</b>	means the ASX Settlement and Transfer Corporation Pty Limited (ABN 49 008 504 532), the body which administers the CHESS system in Australia.
<b>ASTC Settlement Rules</b>	means the operating rules of the settlement facility provided by ASTC..
<b>ASX</b>	means ASX Limited ABN 98 008 624 691 or the market conducted by that company.
<b>Board</b>	means the board of Directors of Mothercare.
<b>Business Day</b>	has the meaning given to that term in the Listing Rules.
<b>CHESS</b>	means the Clearing House Electronic Sub-register System established and operated by ASTC for the clearing, settlement, transfer and registration of securities in Australia.
<b>Clime</b>	Clime Capital Limited ACN 106 282 777.
<b>Closing Date</b>	means 5.00pm on 26 September 2011, or such later date as the Directors, in their absolute discretion and subject to compliance with the Listing Rules, may determine.
<b>Company or Mothercare</b>	means Mothercare Australia Limited ACN 060 199 082.
<b>Constitution</b>	means the Constitution of the Company.
<b>Corporations Act</b>	means <i>Corporations Act 2001</i> (Cth).

<b>Corporations Regulations</b>	means <i>Corporations Regulations 2001</i> (Cth).
<b>Director</b>	means a director of Mothercare.
<b>EBITDA</b>	means earnings before interest, tax, depreciation and amortisation.
<b>Eligible Shareholders</b>	means all Shareholders registered as the holder of Shares on the Record Date, other than Ineligible Shareholders.
<b>Entitlement and Acceptance Form</b>	means the entitlement and acceptance form accompanying this Prospectus.
<b>Expiry Date</b>	means 1 October 2012, being 13 months after the date of this Prospectus.
<b>Group</b>	means the Company and its subsidiaries.
<b>Ineligible Shareholders</b>	means all Shareholders whose registered address is not in Australia, New Zealand or England, or are or are holding for the account or benefit of, a person who is a U.S. person or in the United States.
<b>Intercreditor Deed</b>	means the Intercreditor Deed between the Group, the Trustee and ANZ.
<b>Listing Rules</b>	means the official listing rules of ASX.
<b>Loan Agreements</b>	means the separate Loan Agreements entered into between the Company and Mothercare PLC and Myer Family.
<b>Mothercare PLC</b>	means Mothercare PLC, a company registered in England No. 102194.
<b>Mothercare Finance</b>	means Mothercare Finance Limited, a company registered in England No. 01382896.
<b>Myer Family</b>	means The Myer Family Company Holdings Pty Ltd ABN 32 004 116 296.
<b>New Mandatorily Converting Note</b>	means a secured Mandatorily Converting Note issued by way of the pro-rata non-renounceable Rights Issue offered pursuant to this Prospectus the terms of which are set out in Section 5.3.
<b>Noteholder</b>	means a person who receives New Mandatorily Converting Notes under the Offer.
<b>Noteholder Security</b>	means a second ranking fixed and floating charge over all of the assets and undertaking of the Group.

<b>Offer</b>	means the pro rata non-renounceable offer of New Mandatorily Converting Notes at an issue price of \$0.18 per on the basis of 1 New Mandatorily Converting Note for every 5 Shares held on the Record Date pursuant to this Prospectus.
<b>Prospectus</b>	means this prospectus dated 1 September 2011.
<b>Record Date</b>	means 7.00pm on 9 September 2011.
<b>Right</b>	means the right of an Eligible Shareholder to subscribe for New Mandatorily Converting Notes.
<b>Rights Issue</b>	means the issue pursuant to this Prospectus of New Mandatorily Converting Notes.
<b>Sarwill</b>	means Sarwill Pty Ltd ACN 002 412 795 as trustee for The Gavshon Family Superannuation Fund.
<b>Share</b>	means a fully paid ordinary share issued in the capital of Mothercare.
<b>Shareholder</b>	means a shareholder whose details appear on the Company's register of Shareholders as at the Record Date.
<b>Share Registry</b>	means Computershare Investor Services Pty Limited.
<b>Shortfall</b>	means those New Mandatorily Converting Notes not applied for by Eligible Shareholders pursuant to their Rights.
<b>Take Up Deeds</b>	means the separate Take Up Deeds entered into between the Company and Myer Family, Mothercare Finance and Clime on 31 August 2011.
<b>Trust Deed</b>	means the Convertible Note Trust Deed between the Group and the Trustee.
<b>Trustee</b>	means Australian Executor Trustees Limited ACN 007 869 794.
<b>Underwriters</b>	means severally Myer Family, Mothercare Finance and Sarwill.
<b>Underwriting Agreements</b>	means the separate Underwriting Agreements entered into between the Company and Myer Family, Mothercare Finance and Sarwill on 31 August 2011.
<b>U.S. or United States</b>	means the United States of America, its territories and possessions, any State of the United States and the District of Columbia.
<b>U.S. person</b>	has the meaning given to that term in Regulation S under the U.S. Securities Act.

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**U.S. Securities Act**

means the Securities Act of 1933, as amended, of the United States.

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**7.2 Interpretation**

In this Prospectus and in the Entitlement and Acceptance Form, unless the context otherwise requires:

- (a) words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (b) words importing a gender include any gender;
- (c) words importing the singular include the plural and vice versa;
- (d) an expression importing a natural person includes any Company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- (e) a reference to a section is a reference to a section of this Prospectus;
- (f) a reference to a statute, regulation, proclamation, ordinance, by-law includes all statutes, regulations, proclamations, ordinances or by-laws amending, consolidating or replacing it, whether passed by the same or another government agency with legal power to do so, and a reference to a statute includes all regulations, proclamations, ordinances and by-laws issued under that statute;
- (g) headings and boldings are for convenience only and do not affect the interpretation in this Prospectus;
- (h) a reference to time, unless otherwise stated, is a reference to Australian Eastern Time;
- (i) a reference to \$ or dollar is to Australian currency; and
- (j) a reference to writing includes email and facsimile transmissions.

## **Corporate Directory**

### **Head Office**

Level 1  
Building 220/2A  
The Entertainment Quarter  
122 Lang Road  
Moore Park NSW 2021

### **Directors**

Mr Robert Gavshon (Chairman)  
Mr Brent Dennison (Managing Director)  
Mr Donald Bartlett (Non-executive Director)  
Mr Jerry Cull (Non-executive Director)  
Mr Mike Lewis (Non-executive Director)  
Mr David Shelmerdine (Non-executive Director)  
Mr Chester Moynihan (Non-executive Director)

### **Company Secretary**

Mr Robert de Lorenzo

### **Legal Adviser**

Kemp Strang  
Level 17, 175 Pitt Street  
Sydney NSW 2000

### **Trustee**

Australian Executor Trustees Limited  
Level 22, 207 Kent Street,  
Sydney NSW 2000

### **Share Registry**

Computershare Investor Services Pty Limited  
Level 4  
60 Carrington Street  
Sydney NSW 2000