Mothercare Australia Limited
ABN 26 060 199 082

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

16 November 2012

Market Announcement
Security Code: MLC

Mothercare Australia Limited ("MLC") announces that it will hold its Annual General Meeting of Shareholders on 17 December 2012. This meeting, in addition to the Ordinary Business of the meeting, will seek the approval of shareholders to the proposed sale of MLC's business as outlined in the announcement of 14 November 2012, as well as other related Resolutions.

The Notice of Annual General Meeting, Proxy Form, Explanatory Memorandum and Independent Expert's Report are attached to this announcement and will be mailed to shareholders today.

Notices for a Meeting of Noteholders, which will also be required to approve aspects of the proposed transaction will be dispatched to Noteholders shortly.

For and on behalf of the Board

David James
Company Secretary

Mothercare Australia Limited
ABN 26 060 199 082

Meeting Documentation

Notice of Annual General Meeting
Explanatory Memorandum
(including Independent Expert's Report of
Pitcher Partners NSW Corporate Pty. Limited)

Date of Meeting
17 December 2012

Time of Meeting
10.00am

Place of Meeting
Level 10, 1 Margaret St
Sydney NSW 2000

This Notice of Annual General Meeting and Explanatory Memorandum should be read in their entirety. If you are in doubt about what to do in relation to how you should vote, you should consult with your financial or other professional adviser.

An independent expert's report is attached in the Annexure to the Explanatory Memorandum accompanying this Notice of Meeting as required by Listing Rule 10.1. The report concludes that the transaction the subject of Resolution 3 in this Notice of Meeting, is fair and reasonable, for the reasons set out in the report.

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Mothercare Australia Limited
ABN 26 060 199 082

Notice of Annual General Meeting

The Annual General Meeting of Mothercare Australia Limited ABN 26 060 199 082 will be held at Level 10, 1 Margaret St, Sydney NSW 2000 on 17 December 2012 at 10.00am.

The business to be considered at the Annual General Meeting is set out below. This includes considering amendments proposed by the Company to the trust deed dated 31 August 2011 between the Company, its subsidiaries and Australian Executor Trustees Limited (**Trustee**).

The amendments have been proposed by the Company to facilitate the sale by the Company to The Myer Family Company Holdings Pty Ltd (**Myer Family Company**) of all of its assets and undertaking and reported liabilities, and liabilities incurred in the ordinary course of business up to the date of completion of the proposed sale (the **Myer Family Company Proposal**).

If the Myer Family Company Proposal is not approved by the Noteholders and the Mothercare Shareholder Approval (as defined below) is not obtained, the Directors of the Company intend to place the Company into voluntary administration.

Pursuant to the Myer Family Company Proposal, it is intended that the cash component of the sale proceeds after paying any remaining debts owing by the Company and an allowance for working capital be utilised towards full and final settlement of the Notes, and that the security held by the Trustee in favour of the note holders will be released.

This Notice of Meeting should be read in its entirety in conjunction with the accompanying Explanatory Memorandum, which contains information in relation to the following Resolution and the Myer Family Company Proposal.

If you are in any doubt as to how you should vote on the proposal set out in this Notice of Meeting, you should consult your financial or other professional adviser.

Ordinary business

Financial Report for the year ended 30 June 2012

To receive and consider the Financial Statements, the Directors' Report and the Auditor's Report, which are contained in the 2012 Annual Report.

The 2012 Annual Report accompanies this Notice of Meeting if Shareholders have elected to receive a printed version. An electronic version of the 2012 Annual Report can be accessed on the Company's ASX platform at www.asx.com.au.

Resolution 1 - Remuneration Report

To consider the Remuneration Report as contained in the 2012 Annual Report, and if thought fit, pass the following non-binding ordinary resolution:

That the Remuneration Report for the 12 months to 30 June 2012 be adopted.

Note: This resolution is advisory only and does not bind the Directors or the Company.

Voting exclusion statement for Resolution 1: The Company will disregard any votes cast on Resolution 1:

(a) by or on behalf of a member of the Key Management Personnel of the Company (including Directors) (**KMP**) (as defined in Section 9 of the Corporations Act) details of whose remuneration are included in the Remuneration Report;

(b) by or on behalf of a closely related party (as defined in Section 9 of the Corporations Act such as close family members and any controlled companies) of a member of the KMP; or

(c) as a proxy by a member of the KMP or a KMP's closely related party unless the vote is cast as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form or unless the vote is cast as proxy for a person who is entitled to vote by the Chair of the Meeting. Note that the Proxy expressly authorises the Chair of the Meeting to vote undirected proxies on this resolution.

Resolution 2 - Re-election of Mr Brent Dennison as a Director

To consider, and if thought fit, to pass the following ordinary resolution:

That Mr Brent Dennison, a Director of the Company, retiring in accordance with clause 6.3 of the Company's Constitution and ASX Listing Rule 14.4 being eligible and offering himself for re-election, be re-elected as a Director of the Company.

Special business

Resolution 3 - Approval for the purpose of Listing Rules 10.1 and 11.2

To consider, and if thought fit, to pass the following ordinary resolution:

That for the purposes of Listing Rules 10.1 and 11.2 and for all other purposes, approval be given for the sale to Myer Family Company of the entire share capital in Skansen KCG Pty Ltd and the forgiveness of certain intercompany loans, in each case, on the terms set out in the Implementation Agreement.

Voting exclusion statement for Resolution 3: The Company will disregard any votes cast on this Resolution by Myer Family Company, any other person who might obtain a benefit, except a benefit solely in the capacity of a Shareholder, if this Resolution is passed and any of their Associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

The Independent Expert is of the opinion that the Myer Family Company Proposal is fair and reasonable.

To consider, and if thought fit, to pass the following special resolutions:

Resolution 4 - Change of Company Name

That, subject to the passing of resolution 3, pursuant to section 157(1) of the Corporations Act and for all other purposes, approval be given for the Company to change its name from Mothercare Australia Limited to Dodo Limited.

Resolution 5 - Buy-back of shares held by M F Custodians Ltd

That for the purposes of section 257D(1) of the Corporations Act 2001 (Cth) and for all other purposes:

(a) the Company is authorised to purchase all of the ordinary shares held by M F Custodians Ltd in the capital of the Company for a total purchase price of $1.00 on the terms set out in section 3 of the Explanatory Memorandum accompanying this Notice of Meeting; and

(b) the terms of the buy-back agreement summarised in section 3 of the Explanatory Memorandum accompanying this Notice of Meeting are approved.

Voting exclusion statement for Resolution 5: In accordance with the Corporations Act, the Company will disregard any votes cast in favour of this Resolution by M F Custodians Ltd and any of its associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 6 - Buy-back of shares held by Mothercare Finance Limited

That for the purposes of section 257D(1) of the Corporations Act 2001 (Cth) and for all other purposes:

(a) the Company is authorised to purchase all of the ordinary shares held by Mothercare Finance Limited in the capital of the Company for a total purchase price of $1.00 on the terms set out in section 3 of the Explanatory Memorandum accompanying this Notice of Meeting; and

(b) the terms of the buy-back agreement summarised in section 3 of the Explanatory Memorandum accompanying this Notice of Meeting are approved.

Voting exclusion statement for Resolution 6: In accordance with the Corporations Act, the Company will disregard any votes cast in favour of this Resolution by Mothercare Finance Limited and any of its associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Eligibility to Vote

The Board has determined that for the purpose of this Annual General Meeting, Shareholders will be taken to be the persons recorded on the Company's register of Shareholders by 7.00pm (Sydney time) on 15 December 2012

Proxies

A Shareholder entitled to attend and vote at the Annual General Meeting may appoint one or two persons to attend and vote at the Annual General Meeting as the Shareholder's proxy.

A proxy need not be a Shareholder. If two proxies are appointed, each proxy must be appointed to represent a specified proportion of the Shareholder's voting rights. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each may exercise half of the Shareholder's votes.

A proxy's authority to speak and vote for a Shareholder at the Annual General Meeting is not revoked if the Shareholder is present at the Annual General Meeting but if the Shareholder votes on any Resolution, the proxy is not entitled to vote, and must not vote, as the Shareholder's proxy on that Resolution.

Proxies may only be appointed by returning the enclosed proxy form no later than 10.00am on 16 December 2012 by:

- post to Computershare Investor Services Pty Limited at GPO Box 242, Melbourne Vic 3001 or the Company at Locked bag 8000, Paddington NSW 2021;

- fax to 1800 783 447, or to 61 3 9473 2555 (outside Australia); or
- hand delivery to Level 4, 60 Carrington Street, Sydney NSW 2000

The proxy form must be signed by the Shareholder. If it is a joint shareholding, all of the Shareholders must sign. If signed by the Shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to the poxy form. If the Shareholder is a company, where the company has a sole director who is also the sole company secretary, the proxy form must be signed by that person. If the company does not have a company secretary, a sole director may also sign alone. Otherwise the proxy form must be signed by a director jointly with either another director or a company secretary.

Please note that it is the Chairman's intention to vote undirected proxies which he holds as proxy in favour of all Resolutions. The Chairman is expressly authorised by the Proxy to vote undirected proxies on Resolution 1.

By order of the Board

David James
Company Secretary

Dated: 15 November 2012

Mothercare Australia Limited
ABN 26 060 199 082

Explanatory Memorandum

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1. Introduction

This Explanatory Memorandum has been prepared for Shareholders of Mothercare Australia Limited ABN 26 060 199 082 (**Company** or **MLC**) in connection with the business to be transacted at the Annual General Meeting of the Company to be held at 10.00am on 17 December 2012 at Level 10, 1 Margaret St, Sydney NSW 2000 and contains important explanatory and other information for Shareholders in relation to the Resolutions set out in the attached Notice of Meeting.

The Directors recommend Shareholders read this Explanatory Memorandum carefully in full before making any decision in relation to the Resolutions.

The Directors encourage all Shareholders to attend the Annual General Meeting and vote in person or by proxy to ensure that they have a say in protecting their investment in the Company.

Words or expressions used in the Notice of Meeting and in this Explanatory Memorandum are defined in the Glossary.

If you are in doubt about what to do in relation to the Resolutions, you should consult with your financial or other professional adviser.

2. Ordinary Business

Financial Report for the year ended 30 June 2012

Section 317 of the Corporations Act requires that the Financial Report (which includes the Financial Statements and Directors' declaration), the Directors' Report and the Auditor's Report be laid before the Annual General Meeting. These reports, which are incorporated in the 2012 Annual Report, can be access on the Company's ASX platform at www.asx.com.au.

There is no requirement either in the Corporations Act or in the Company's Constitution for the Shareholders to approve these reports. However, the Chairman will allow a reasonable opportunity for Shareholders to ask questions or make comments about these reports. Shareholders will also be given a reasonable opportunity to ask the auditor questions about the conduct of the audit and the preparation and content of the Auditor's Report.

Remuneration Report (Resolution 1)

Under sections 249L and 250R of the Corporations Act, public companies are required to meet disclosure requirements in respect of Director and executive remuneration, and to include a Remuneration Report in the Directors' Report to Shareholders. The Remuneration Report for the 12 months ended 30 June 2012 is included in the 2012 Annual Report. Further the Corporations Act requires that adoption of the Remuneration Report be included as a resolution on which Shareholders are given the opportunity to vote at the Annual General Meeting.

The vote on this Resolution is advisory only and does not bind the directors and the Company. The Resolution gives the members the opportunity to ask questions or make comments concerning the Remuneration Report during the meeting.

Re-election of Mr Brent Dennison as a Director (Resolution 2)

In accordance with clause 6.3(a) of the Company's Constitution at every annual general meeting of the Company, one third of the Directors must retire from office and stand for re-election. Clause 6.3(c) provides that a retiring Director is eligible for re-election. The re-election of Mr Dennison is included as business for the Annual General Meeting in accordance with these rotational requirements.

Mr Dennison was appointed to the Board on 21 July 2008. He stepped down from the role of Managing Director on 29 June 2012, but has continued as a Non-Executive Director during which time he has provided invaluable support and advice to the Board and Executive management team.

3. Special Business

Transaction summary

- The Company proposes to sell to Myer Family Company of all of the assets and undertaking and reported liabilities of the Company.

- The sale is proposed to take place by selling the entire share capital of Skansen KCG being the Company's operating subsidiary to Myer Family Company for the aggregate consideration comprising each of $490,000 cash (GST inclusive), $4,500,295.20, being the face value of the Notes forgiven by Myer Family Company and $1,270,000, being the face value of the bridging loans in the Company forgiven by Myer Family Company (**Myer Family Company Proposal**). Further, certain intercompany loans will be forgiven under the Implementation Agreement. The forgiveness by Myer Family Company of its Notes and bridging loans in the Company means that the Company will no longer be obliged to repay the Notes and bridging loans to Myer Family Company. A summary of the Myer Family Company Proposal is set out in this section and sections 5 of this Explanatory Memorandum. The approval of Shareholders to the Myer Family Company Proposal is sought in Resolution 3 of the Notice of Meeting.

- Subject to shareholder approval, Myer Family Company has also agreed to procure M F Custodians Ltd to offer to sell to the Company all of its Shares in the Company for an aggregate amount of $1.00 by way of a selective share buy back following completion of the Myer Family Company Proposal and any meeting to approve the backdoor listing of a business in the Company. The approval of the Shareholders to the buy-back is sought in Resolution 5 of the Notice of Meeting.

- Subject to shareholder approval, Mothercare Finance Limited has separately agreed with the Company to forgive its Notes and bridging loans in the Company on completion of the Myer Family Company Proposal and to sell to the Company its Shares in the Company for an aggregate amount of $1.00 by way of a selective share buy back following completion of the Myer Family Company Proposal and any meeting to approve the backdoor listing of a business in the Company. The approval of the Shareholders to the buy-back is sought in Resolution 6 of the Notice of Meeting.

- The Company proposes to use the $490,000 cash component of the consideration after paying any remaining debts owing by the Company and an allowance for working capital, in repayment of the face value of the Notes in accordance with proposed amendments to the terms of the Notes. The distribution is to be in full and final settlement of the Notes.

Myer Family Company Proposal (Resolution 3)

As announced in the 2012 Annual Report the Company and its subsidiaries incurred a net comprehensive loss after tax of $12.3 million for the full year.

In summary, the main factors impacting the result included:

- Australian retail market conditions remained difficult in terms of weak consumer demand and consequently price-based completion escalated.
- Restructuring costs including redundancies of $0.8m.
- An unrealised foreign exchange loss of $0.3m.
- Costs associated with the return of surplus stock of $0.3m.
- A fixed asset write down of $0.4m associated with store closures.
- Depreciation and amortisation of $2.9m.

The Board has explored a number of possible strategic options available to the Company in light of the difficult Australian retail market conditions including raising additional capital, the sale of the business of the Company and voluntary administration.

As announced to the ASX on 10 October 2012, the Company signed a Term Sheet with The Myer Family Company Holdings Pty Ltd (**Myer Family Company**) for Myer Family Company to acquire the business of the Company.

On 14 November 2012 the Company, Skansen and Myer Family Company entered into an Implementation Agreement. Under the Implementation Agreement Myer Family Company agreed to purchase the entire share capital of Skansen KCG (**Sale Shares**) from Skansen for the aggregate consideration comprising each of $490,000 cash (GST inclusive), $4,500,295.20, being the face value of the Notes forgiven by Myer Family Company and $1,270,000, being the face value of the bridging loans in the Company forgiven by Myer Family Company. Further, certain intercompany loans will be forgiven under the Implementation Agreement.

The sale is subject to the satisfaction or waiver of a number of conditions precedent by 31 December 2012 or such other date as agreed by the parties (**Condition Date**) including the Shareholders' approval of Resolution 3. A summary of the terms of the Implementation Agreement is provided in section 5 below.

Effect of the Myer Family Company Proposal

The effect of the Myer Family Company Proposal will be the sale to Myer Family Company of all of the assets and undertaking and reported liabilities of the Company and liabilities incurred in the ordinary course of business up to Completion. Following Completion the Directors do not expect that there will be any material return available to Shareholders.

Directors' intentions following Completion

Following the Completion of the sale and purchase of the Sale Shares under the Implementation Agreement, it is the Directors' intention to consider opportunities for the Company to be used as a backdoor listing vehicle by another entity seeking to be listed on the ASX in which case the Company's existing Shares may have a nominal value. In the event that no backdoor listing opportunities present themselves to the Directors, the Directors intend to place the Company into members' voluntary liquidation. The Directors believe that there will be no distribution to Shareholders on a winding up of the Company.

Although the Directors have considered the potential additional value to Shareholders of Mothercare providing a means by which a third party might obtain a backdoor listing, that is not a material reason for the Directors' recommendation of the Myer Family Company Proposal. Further, in determining that the Myer Family Company Proposal is fair and reasonable and in the best interest of Shareholders, the Independent Expert has not attributed any value to the premium which may be paid to obtain a shell company such as Mothercare after the Myer Family Company Proposal has Completed.

Advantages and Disadvantages of Myer Family Company Proposal

The advantages of the Myer Family Company Proposal include that:

- following Completion, the Shareholders will retain a holding in a non-operating listed company and receive potential additional value if an opportunity presents itself to the Directors for Mothercare to be used as a backdoor listing vehicle by another entity seeking to be listed on the ASX; and
- Mothercare would otherwise be placed into voluntary administration if the Myer Family Company Proposal does not proceed. The Directors, in adopting this course, have acted in the best interests of the Company having regard not only to the interests of shareholders but also to the interests of employees and creditors.

The disadvantages of the Myer Family Company Proposal include that:

- the Myer Family Company Proposal would remove the opportunity for Shareholders to benefit from a superior proposal. The Board has not received a superior proposal and has exhausted all available alternatives to the Myer Family Company Proposal. The Directors, other than David Shelmerdine, consider the Myer Family Company Proposal to be the best strategic option for the Company at this time; and
- there are risks that are carried with the Myer Family Company Proposal that would not be present had Myer Family Company chosen to purchase the business of the Company by way of takeover or scheme of arrangement. For example, following Completion, contingent liabilities such as liability for any warranty claim made by Myer Family Company under the Implementation Agreement remain with Mothercare and could result in a proportion of the proceeds of the Myer Family Company Proposal being paid to the parties to which the liabilities are owed.

Independent Experts Report

As required by Listing Rule 10.10, the Directors have commissioned an Independent Expert to prepare the Independent Expert's Report to analyse the Myer Family Company Proposal.

The purpose of the Independent Expert's Report is to analyse whether the Myer Family Company Proposal is fair and reasonable to the Mothercare shareholders other than Myer Family Company and its associates.

The Independent Expert's Report, prepared by Pitcher Partners NSW Corporate Pty. Limited is set out in full in the Annexure to this Explanatory Memorandum. Shareholders should read the full text of the Independent Expert's Report to assist them in determining how they wish to vote in respect of the Resolutions.

In summary, the Independent Expert's Report concludes that the Myer Family Company Proposal is fair and reasonable.

Directors' Recommendations

Resolution 3 must be approved by the Shareholders for the sale of Skansen KCG to Myer Family Company and the forgiveness of certain intercompany loans to proceed.

Your Directors, other than David Shelmerdine, unanimously recommend that you vote in favour of Resolution 3 because if Resolution 3 is not passed the Company will become unable to pay its debts as and when they fall due and accordingly will be insolvent. If Resolution 3 is not passed, it is the intention of the Directors to call for the meeting to be adjourned and immediately to appoint a voluntary administrator to the Company and its subsidiaries.

David Shelmerdine, who is affiliated with Myer Family Company, is not participating in the Directors' deliberations in relation to the Myer Family Company Proposal and is therefore not making any recommendation in relation to how you should vote in relation to Resolution 3.

Change of Company Name (Resolution 4)

On Completion of the Myer Family Company Proposal, the Company proposes to change its name to Dodo Limited. Shareholder approval is sought for such change in Resolution 4 of the Notice of Meeting.

Resolution 4 is dependent on Resolution 3. Accordingly, Resolutions 3 and 4 must both be approved by Shareholders for the change to the name of the Company to proceed.

Buy-back of Shares held by M F Custodians Ltd and Mothercare Finance Limited (Resolutions 5 and 6)

The Company will enter separate buy-back agreements with each of M F Custodians Ltd and Mothercare Finance Limited following acceptance by the Company of the offer from each of M F Custodians Ltd and Mothercare Finance Limited to sell their Shares to the Company. In order for the buy-back by the Company of the Shares held by M F Custodians Ltd and Mothercare Finance Limited to proceed, section 257D(1) of the Corporations Act requires the terms of each buy-back agreement be approved by a special resolution of Shareholders with no votes being cast in favour of the resolution by any person whose Shares are proposed to be bought back or their associates. Accordingly, special resolutions approving the buy-back of Shares from M F Custodians Ltd and Mothercare Finance Limited are contained in Resolutions 5 and 6 respectively.

The number of Shares on issue as at the date of the Notice of Meeting was 212,920,557.

As at the date of the Notice of Meeting M F Custodians Ltd held 21,666,666 Shares in the Company, being 10.18% of the Shares on issue and Mothercare Finance Limited held 49,063,500 Shares in the Company, being 23.04% of the Shares on issue.

Under the terms of the Implementation Agreement, conditional on Completion occurring Myer Family Company must procure M F Custodians Ltd to offer to sell all of its Shares following any meeting to approve the backdoor listing of a business in the Company, to the Company for an aggregate amount of $1.00 (if such sale has been approved by the shareholders of the Company in accordance with the Corporations Act). The resolution approving the buy-back of Shares from M F Custodians Ltd is contained in Resolution 5. Upon acceptance of M F Custodians Ltd's offer, the Company and M F Custodians Ltd will have entered into a buy-back agreement with respect to the Shares.

It is the opinion of each Director, other than David Shelmerdine, that the Company should accept the share buy-back offer from M F Custodians Ltd if Resolution 5 is approved by the Shareholders following any meeting to approve the backdoor listing of a business in the Company.

Under the terms of a Deed entered in to between Mothercare Finance Limited and the Company on 14 November 2012 Mothercare Finance Limited must offer to sell all of its Shares, conditional on Completion occurring, following any meeting to approve the backdoor listing of a business in the Company, to the Company for an aggregate amount of $1.00 (if such sale has been approved by the shareholders of the Company in accordance with the Corporations Act). The resolution approving the buy-back of Shares from Mothercare Finance Limited is contained in Resolution 6. Upon acceptance of Mothercare Finance Limited's offer, the Company and Mothercare Finance Limited will have entered into a buy-back agreement with respect to the Shares.

It is the opinion of each Director that the Company should accept the share buy-back offer from Mothercare Finance Limited if Resolution 6 is approved by the Shareholders following any meeting to approve the backdoor listing of a business in the Company.

The consideration for the buy-back of Shares from each of M F Custodians Ltd and Mothercare Finance Limited will be nominal as the value of the Shares will be nominal. Because the Shares will be repurchased from M F Custodians Ltd and Mothercare Finance Limited for nominal consideration there will be no return of capital and the financial effect of the buy-backs on the Company will be negligible. In addition, because there will be nominal consideration for the buy-backs the Directors did not consider that it was necessary for the Independent Expert's Report to value the Shares to be bought back and therefore no value has been attributed them.

The reason for the buy-back of the Shares held by M F Custodians Ltd and Mothercare Finance Limited is that M F Custodians Ltd and Mothercare Finance Limited independently wish to ensure that any residual benefits to Shareholders following Completion and any meeting to approve the backdoor listing of a business in the Company are retained by the Shareholders other than M F Custodians Ltd and Mothercare Finance Limited.

The advantages for Shareholders of the Company buying-back M F Custodians Ltd's and Mothercare Finance Limited's Shares in the Company are that it will facilitate the Company being used in the future as a backdoor listing vehicle by another entity seeking to be listed on ASX and enable Shareholders other than M F Custodians Ltd and Mothercare Finance Limited to receive greater value in their Shares from such backdoor listing transaction.

The Board considers that there are no disadvantages for Shareholders of the Company buying-back from M F Custodians Ltd's and Mothercare Finance Limited's Shares in the Company.

If both buy-backs proceed, the effect on the control of the Company following completion of the buy-backs will be that there will be no Shareholder with control of the Company. If Resolution 5 is approved by Shareholders and Resolution 6 is not approved by Shareholders Mothercare Finance Limited's shareholding will increase from 23.04% to 25.65% of the Shares on issue. This increase of Mothercare Finance Limited's shareholding would not be prohibited under section 606 of the Corporations Act as it would be an acquisition that results from a buy-back authorised by section 257A under section 611 item 19 and the increase of 2.61% would be within the 3% creep exception under section 611 item 9. If Resolution 6 is approved by Shareholders and Resolution 5 is not approved by Shareholders M F Custodians Ltd's shareholding will increase from 10.18% to 13.22% of the Shares on issue.

The Corporations Act requires the Company to include with the Notice of Meeting approving the buy-back agreements, a statement setting out all information known to the Company that is material to the resolutions. The Directors consider that the attached Notice of Meeting containing Resolutions 5 and 6 and this Explanatory Memorandum contain all information known to the Company that is material for Shareholders to make an informed decision on Resolutions 5 and 6.

Directors' Recommendations

Resolution 5 must be approved by the Shareholders for the buy-back by the Company of the Shares held by M F Custodians Ltd to proceed. Resolution 6 must be approved by the Shareholders for the buy-back by the Company of the Shares held by Mothercare Finance Limited to proceed.

Your Directors, other than David Shelmerdine in the case of Resolution 5, unanimously recommend that you vote in favour of Resolutions 5 and 6 to enable Shareholders other than M F Custodians Ltd and Mothercare Finance Limited to receive greater value in their Shares from any backdoor listing of a business in the Company.

David Shelmerdine, who is affiliated with Myer Family Company, is not participating in the Directors' deliberations in relation to the buy-back by the Company of the Shares held by M F Custodians Ltd and is therefore not making any recommendation in relation to how you should vote in relation to Resolution 5.

4. Reasons for the Resolutions

The relevant Listing Rule and the relevant sections of the Corporations Act for which each of the Resolutions is required to be passed are set out in the body of that Resolution. The effect of each relevant provision of the Listing Rules and the Corporations Act is as follows:

(a) Resolution 3

Listing Rule 10.1 requires the prior approval of shareholders if a company proposes to dispose of a substantial asset to a substantial shareholder being a shareholder who together with its associates has a relevant interest, or had a relevant interest at any time in the 6 months before the transaction, in at least 10% of the total votes attached to the voting securities of the company. M F Custodians Ltd, an associated company of Myer Family Company, holds 10.18% of the voting securities in the Company.

An asset is substantial if its value or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the company as set out in the latest accounts given to ASX under the Listing Rules. The Myer Family Company Proposal is for the sale of the Company's business which represents substantially the whole of the value of its equity interests.

Listing Rule 11.2 requires the prior approval of shareholders if a company proposes to make a significant change in the nature or scale of its activities involving the entity disposing of its main undertaking.

(b) Resolution 4

Section 157(1)(a) of the Corporations Act requires that the shareholders pass a special resolution adopting a new name if a company wants to change its name.

(c) Resolutions 5 and 6

Section 257D(1) of the Corporations Act requires before a company can undertake a selective buy-back the terms of the buy-back agreement must be approved by either:

- a special resolution of shareholders with no votes being cast in favour of the resolution by any person whose shares are proposed to be bought back or their associates; or
- a resolution of all ordinary shareholders.

5. Summary of Implementation Agreement

On 14 November 2012 the Company, Skansen and Myer Family Company entered into an Implementation Agreement. Under the Implementation Agreement Myer Family Company agreed to purchase the Sale Shares from Skansen for the aggregate consideration comprising each of $490,000 cash (GST inclusive), $4,500,295.20, being the face value of the Notes forgiven by Myer Family Company and $1,270,000, being the face value of the bridging loans in the Company forgiven by Myer Family Company.

The sale of the Sale Shares to Myer Family Company is subject to the satisfaction or waiver of a number of conditions precedent by the Condition Date including:

(a) the Shareholders' approval of Resolution 3;

(b) the approval of the Noteholders to amend the terms of the Notes and Trust Deed as approved by Myer Family Company (such approval not to be unreasonably withheld);

(c) the approval of Australia and New Zealand Banking Group Limited (**ANZ**) to the transfer of the Sale Shares to Myer Family Company and that on completion of the sale and purchase of the Sale Shares (**Completion**), ANZ has agreed to extend funding arrangements so they remain available to Skansen KCG and its subsidiaries following Completion on their current terms and Skansen and the Company will be released from any and all liabilities relating to all financial accommodation provided by ANZ to the Company and Skansen;

(d) that the Company has obtained releases and discharges of all encumbrances in relation to the Sale Shares, Skansen KCG and its subsidiaries that are acceptable to Myer Family Company and releases and discharges of all liabilities (actual and contingent) incurred in connection with Skansen and Skansen KCG (other than those in respect of the ANZ funding arrangements and any encumbrances granted or liabilities incurred in the ordinary course of business of Skansen KCG and its subsidiaries);

(e) Mothercare PLC and Myer Family Company agreeing certain commercial arrangements;

(f) delivery of certified copies of each required board consent of Skansen relating to the Implementation Agreement;

(g) delivery of certified copies of any governmental agency consent relating to the Implementation Agreement, the transfer of the Sale Shares to Myer Family Company and the ownership and possession of the Sale Shares by Myer Family Company, and the assets of the Group, subsequent to Completion, which Myer Family Company reasonably considers are necessary or desirable and each of which is unconditional or subject only to conditions reasonably acceptable to Myer Family Company;

(h) no temporary restraining order, preliminary or permanent injunction or declaration or other order issued by any governmental authority, no preliminary or final decision, determination, or order issued by any governmental authority and no other legal restraint preventing, delaying or adversely affecting any of the transactions contemplated by the Implementation Agreement is in effect;

(i) no insolvency event has occurred or is subsisting with respect to Skansen;

(j) delivery of a statutory declaration from Skansen that the copy of the share register for each Group Company and current ASIC search of each Group Company annexed to the statutory declaration are true and correct in all particulars;

(k) delivery of evidence that Skansen has caused each transfer of shares in each Group Company since its incorporation to be stamped in the appropriate jurisdiction (if required);

(l) all indebtedness owed:

   (i) from Skansen or any person associated with Skansen (not being a Group Company) to each Group Company (other than amounts owing in the normal course of trading on arm's length terms) ;

   (ii) from any Group Company to Skansen or any of its related companies (not being a Group Company and other than amounts owing in the normal course of trading on arm's length terms) ; and

   (iii) from Skansen or any Group Company to a third party (other than amounts owing in the normal course of trading on arm's length terms),

   is discharged and extinguished in full (including, without limitation, the forgiveness of (i) the loan from the Company to Skansen KCG which, as at the date of this deed, is in the amount of $36,728,941; (ii) the loan from Skansen to Skansen KCG which, as at the date of this deed, is in the amount of $3,112,543; and (iii) the loan from Dodo Holdings Pty Limited to Skansen KCG which, as at the date of this deed, is in the amount of $578,223), and reasonable evidence of such discharge to Myer Family Company's reasonable satisfaction is provided to Myer Family Company;

(m) the Company resolving certain immaterial legal proceedings;

(n) each Group Company is, with effect from Completion, released from any actual, contingent or accrued liabilities under each guarantee provided by any Group Company in relation to the obligations of Skansen and its related companies (other than each Group Company); and

(o) the Company has lodged with the appropriate tax authority all returns required to be lodged in relation to the tax affairs of the Company and its consolidated subsidiaries.

Certain of the conditions may be waived by Myer Family Company. A number of conditions may not be waived by either party. However, should all of the conditions not be satisfied or waived by the Condition Date, the Implementation Agreement may be terminated, and the Myer Family Company Proposal will not proceed.

Completion will take place 5 Business Days following satisfaction or waiver of the last condition precedent.

It is anticipated that all conditions that are due to be satisfied by the date of the Annual General Meeting will be satisfied. An announcement will be made to the ASX and before the consideration of the relevant approval resolution at the Annual General Meeting of the then state of satisfaction (or not) of the conditions.

Prior to Completion Skansen has agreed to maintain Skansen KCG in the manner it has been prior to the execution of the Implementation Agreement including not:

- creating any security interest over its assets, except in the ordinary course of business; or
- performing or omitting any action which might create or cause a prejudicial effect on any asset or the business of Skansen KCG.

Prior to the later of Completion and the resolution by the Company of certain immaterial legal proceedings Skansen has agreed not to:

- transfer, acquire or dispose of any asset, except in the ordinary course of business;
- declare, determine or pay any dividend, approve or undertake any share buy-back or reduction of capital or redeem any redeemable preference share; or
- incur any significant cost, except in the ordinary course of business or as permitted in the Implementation Agreement.

Skansen has also provided certain warranties regarding the Sale Shares, its execution of the Implementation Agreement and the assets. The period during which Myer Family Company may make a warranty claim under the Implementation Agreement will expire at Completion.

Subject to Completion occurring, Myer Family Company must also procure M F Custodians Ltd to offer to sell all of its Shares in the Company to the Company following any meeting to approve the backdoor listing of a business in the Company (if such sale has been approved by the shareholders of the Company in accordance with the Corporations Act).

A party may terminate the Implementation Agreement by notice in writing to the other party in the event that:

- any condition precedent has not been satisfied or waived by Myer Family Company on or prior to the Condition Date or any condition has become incapable of satisfaction and has not been waived;
- if Myer Family Company becomes aware of breaches of warranty which would give rise to a claim of $100,000 in aggregate or more and the circumstances of the breach are not remedied by the earlier of 5 Business Days from notifying Skansen and the date of Completion; or
- a party fails to effect completion having been served a completion notice by the other party, except where the party serving the notice is itself in default.

Myer Family Company may also terminate the Implementation Agreement by notice in writing to the Company in the event of a material default by the Company under the Implementation Agreement.

6. Glossary

In the Notice of Meeting and this Explanatory Memorandum the following expressions have the following meanings:

Annual General Meeting means the annual general meeting convened by the Notice of Meeting.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ABN 98 008 624 691 or the market conducted by that company.

Board means the board of Directors of the Company.

Business Day means a day that is not a Saturday or Sunday or any other day which is a public holiday or a bank holiday in the place where an act is to be performed or a payment is to be made.

Company or **Mothercare** means Mothercare Australia Limited ABN 26 060 199 082.

Completion means completion of the sale and purchase of the Sale Shares to Myer Family Company under the Implementation Agreement.

Corporations Act means the *Corporations Act 2001* (Cth).

Directors means each of the Directors of the Company.

Dollar or **$** means the lawful currency of the Commonwealth of Australia.

Explanatory Memorandum means this Explanatory Memorandum.

General Meeting means the general meeting convened by the Notice of Meeting.

Group means each Group Company separately and all Group Companies collectively.

Group Company means each of Skansen KCG and its subsidiaries.

Independent Expert means Pitcher Partners NSW Corporate Pty. Limited.

Independent Expert's Report means the report prepared by the Independent Expert attached to this Explanatory Memorandum.

Implementation Agreement means the Implementation Agreement between Mothercare, Skansen and Myer Family Company dated 14 November 2012.

Listing Rules means the Listing Rules of the ASX.

Myer Family Company means The Myer Family Company Holdings Pty Ltd ACN 004 116 296.

Myer Family Company Proposal means proposal for Myer Family Company to acquire the Sale Share from Skansen as summarised in section 3 and 4 of this Explanatory Memorandum.

Noteholders means the holders of the Notes.

Notes means the mandatorily converting notes in the capital of the Company.

Notice of Meeting means the notice of meeting that accompanies this Explanatory Memorandum.

Resolutions means the resolutions set out in the Notice of Meeting and **Resolution** means any of them.

Sale Shares means the entire share capital in Skansen KCG.

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

Skansen means Skansen Pty Limited ACN 128 276 175.

Skansen KCG means Skansen KCG Pty Ltd ACN 134 497 420.

Shareholder means a registered holder of Shares in the Company.

Trust Deed means the Convertible Note Trust Deed between the Company, its subsidiaries and the Trustee dated 31 August 2011.

ANNEXURE

PITCHER PARTNERS

Mothercare Australia Limited

Independent Expert Report

15 November 2012

Deborah Cartwright
Pitcher Partners NSW Corporate Pty Limited
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Sydney NSW 2000

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Pitcher Partners, including Johnston Rorke,
is an association of independent firms
Melbourne | Sydney | Perth | Adelaide | Brisbane

15 November 2012

The Directors
Mothercare Australia Limited
Level 1, Building 220/2A
The Entertainment Quarter
122 Lang Road
Moore Park NSW 2021

Dear Sirs

INDEPENDENT EXPERT REPORT

1 Introduction

1.1 This report has been prepared to accompany the Notice of Annual General Meeting and Explanatory Memorandum to be provided to shareholders of Mothercare Australia Limited ("**Mothercare**" or "**the Company**") for the meeting to be held on 17 December 2012. At that meeting the non-associated shareholders will be asked to consider, and if thought fit, pass the following ordinary resolution as set out in the Notice:

Resolution 3 – Approval for the purpose of Listing Rules 10.1 and 11.2

That for the purposes of Listing Rules 10.1 and 11.2 and for all other purposes, approval be given for the sale to Myer Family Company of the entire share capital in Skansen KCG Pty Ltd and the forgiveness of certain intercompany loans in each case, on the terms set out in the Implementation Agreement.

1.2 This is referred to throughout this report as "**the proposed transaction**".

1.3 Pitcher Partners NSW Corporate Pty Limited ("**Pitcher Partners**") holds an Australian Financial Services Licence 227719 issued by ASIC pursuant to which we are licensed to prepare reports for the purpose of advising shareholders in relation to proposed or actual mergers, acquisitions, disposals, takeovers, corporate reconstructions or share issues.

2 Purpose of Report

2.1 The proposed transaction involves the disposal by Mothercare of all the shares in Skansen KCG Pty. Limited (and effectively its 2 wholly owned subsidiaries) to Myer Family Company Holdings Pty. Limited ("**Myer Family Company**") and the foregiveness of certain intercompany loans. This would represent the disposal of substantial assest to a substantial shareholder under Listing Rule 10.1.3. In accordance with ASX Listing Rule 10.1, the company is required to obtain the approval of the non-associated shareholders before entering into the proposed transaction.The proposed transactions would also constitute the disposal of the company's main undertakings. ASX Listing Rule 11.2 also requires that shareholder approval be obtained for the proposed transaction.

2.2 ASX Listing Rule 10.10.2 requires the company to obtain a report from an independent expert which states whether in the opinion of that independent expert the proposed transaction is fair and reasonable to the non-associated shareholders.

2.3 The non-associated directors of Mothercare have engaged Pitcher Partners to provide this independent expert report to assist the non-associated shareholders in their consideration as to whether or not to approve the proposed transaction.

3 Summary of Opinion

3.1 In my opinion the proposed transaction is **Fair and Reasonable** for the non-associated shareholders of Mothercare.

Fairness

3.2 As set out in section 6.3.2 the fair value of the consideration to be received by the company for the disposal of the assets, if the proposed transaction is approved by the non-associated shareholders, is $490,000 (subject to possible further adjustment – see section 1.8).

3.3 In section 6.3.24 I have estimated that the fair value of the assets which would be acquired by Myer Family Company should the proposed transaction be approved, is zero.

3.4 **Therefore as the fair value of the consideration to be received is greater than the fair value of the assets to be disposed of, I am of the opinion that the proposed transaction is fair to the non-associated shareholders.**

3.5 In my opinion, and based on the analysis carried out in section 6.3.26, the shares in Mothercare Australia Limited held by the non-associated shareholders currently have zero value.

3.6 In my opinion, and based in the analysis carried out in section 6.3.35, if the proposed transaction is approved the ordinary shares in Mothercare Australia Limited held by the non-associated shareholders will also have zero value.

3.7 **As the value of the shares in Mothercare if the approved transaction is approved is the same as if the transaction is not approved, i.e. zero, it is my opinion that the proposed transaction iss fair to the non-associated shareholders of Mothercare.**

Reasonableness

3.8 **RG111 establishes that an offer is reasonable if it is fair. As I have formed the opinion in section 6.4.6 that the proposed transaction is fair to the non-associated shareholders then it follows that the proposed transaction is also reasonable to the non-associated shareholders.**

3.9 I have also considered the following factors which may also indicate that the proposed transaction is reasonable to the non-associated shareholders;

Advantages if the Proposed Transaction is Approved

3.10 **Advantage 1** –Myer Family Company have stated, through the announcement made to the ASX on 10 October 2012 by Mothercare, that they will continue to build Mothercare into a major player in the Australian and New Zealand market. As such, the majority of the employees may retain their jobs in the various retail outlets and the unsecured creditors may be paid in full in the ordinary course. These are not direct benefits to the shareholders but are factors that they may take into account as being reasonable as they have benefit for the stakeholders in the business including the employees and creditors as well as the economy as a whole.

3.11 **Advantage 2** – If the proposed transaction is approved, the company to be re-named Dodo Limited will effectively be a clean shell and whilst it remains listed it may be possible for a suitable business to be introduced into the shell via a back door listing. Whilst the existing non-associated shareholders would likely be diluted considerably should such a transaction occur they would still end up with a small part of something with potential value, rather than a larger part of nothing.

Disadvantages if the Proposed Transaction is Approved

3.12 **Disadvantage 1** – If the proposed transaction does not proceed the directors will place the company into voluntary administration. In the unlikely event that the administration results in all employees, secured and unsecured creditors being paid in full (and after allowing for the administrators fees) and with a surplus of cash remaining, this cash would be available to distribute to the non-associated shareholders. However for the reasons outlined in Section 3.14.12 I am the opinion that this is unlikely to be the case. However the disadvantage to the non-associated shareholders is that this will lose this possibility completely of the proposed transaction is approved.

4 Independence

4.1 Prior to accepting this engagement, Pitcher Partners considered its independence with reference to the ASIC Regulatory Guide 112 "Independence of Expert's Reports" ("**RG 112**").

4.2 Pitcher Partners has no professional involvement with any of Mothercare, Myer Family Company, their directors and shareholders, nor interest in the outcome of the approval of the proposed transaction, other than that of an independent expert. Pitcher Partners is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report. The fee for this report will be $30,000 plus GST.

4.3 Except for these fees, Pitcher Partners will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the proposed transaction.

4.4 A draft of this report was provided to the non-associated directors of Mothercare and its legal advisers for confirmation of factual accuracy of its contents. The only changes made following this review were to correct factual accuracy. No other changes were made to the report as a result of this review, and nor was there any change in the opinions that I had formed prior to providing the draft for review.

5 Limitations and Reliance on Information

5.1 I have considered information obtained from a number of sources in preparing this independent expert's report and arriving at my opinion. These sources of information are detailed in Appendix 1.

5.2 This report is based upon financial and other information provided by the non-associated directors of Mothercare and other information available on public record. I have considered and relied upon this information. The information provided to me has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the proposed transaction is fair and reasonable to the non-associated shareholders. However I do not warrant that my enquiries have identified all of the matters that an audit, or an extensive examination or due diligence might disclose.

6 Current Market Conditions

6.1 My opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

7 Qualifications

7.1 Ms Deborah Cartwright is a director of Pitcher Partners NSW Corporate Pty Limited. Ms Cartwright is a Chartered Accountant with extensive experience in the field of corporate valuations and the provision of independent expert's reports and investigating accountant reports for transactions involving publicly listed and unlisted companies in Australia.

8 Consent

8.1 Pitcher Partners NSW Corporate Pty Limited consents to the inclusion of this report in the form and context in which it is included with the Notice of Annual General Meeting and Explanatory Memorandum to be issued to shareholders. Other than in the preparation of this report, none of the staff of Pitcher Partners has been involved with the preparation of the Notice of Annual General Meeting and Explanatory Memorandum and accordingly Pitcher Partners take no responsibility for the contents of the Notice.

9 Indemnity

9.1 Mothercare has indemnified Pitcher Partners and their respective officers and employees, who may be involved in or in any way associated with this report, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services by Pitcher Partners, occasioned by reliance by Pitcher Partners on information provided by Mothercare or its representatives which is subsequently found to be false or misleading or not complete.

9.2 Complete information is deemed to be information, which at the time of completing this report should have been available to Pitcher Partners and would reasonably been expected to have been made available to Pitcher Partners to enable us to form our opinion. Mothercare will reimburse any indemnified party for all expenses (including but without limitation, legal expenses) on a full indemnity basis.

Yours sincerely
PITCHER PARTNERS NSW CORPORATE PTY LIMITED

Deborah Cartwright
Director

CONTENTS

1 THE PROPOSED TRANSACTION

1.1 On 10 October 2012 the Board of Directors of Mothercare announced to the ASX that the company had signed a Term Sheet with Myer Family Company Holdings Pty. Limited **("Myer Family Company")** for Myer Family Company to acquire the business of the company. The detail of the consideration for the sale was not included in the announcement, as the quantum had not been finalised at the time.

1.2 The Term Sheet executed by Mothercare and Myer Family Company on 10 October 2012 included the following provisions;

a) that Myer Family Company would as soon as practicable following the execution of the Term Sheet subscribe the sum of $500,000 for the Note (see section 1.4 below for further details of this Note) to provide Mothercare with short term working capital.

b) that the proposed transaction was for Myer Family Company to acquire all of Mothercare's assets and undertakings and reported liabilities and liabilities incurred in the ordinary course of business between the balance date and completion, for an additional consideration of $500,000, (subject to adjustment for litigation matters outstanding – see section 1.8).

c) that Mothercare and Myer Family Company agreed to progress towards the finalisation of an Implementation Agreement within 7 days of the announcement. The Implementation Agreement was to be subject to certain conditions including the appropriate approvals by the company's bankers and security holders.

d) Mothercare PLC ("**MPLC**") and Myer Family Company reaching agreement on certain commercial arrangements with respect to the conduct of the business following transfer of ownership to Myer Family Company;

e) following completion of the proposed transaction Myer Family Company will offer to sell, waive or forgive all of its securities and bridging loans in and to Mothercare, to Mothercare, for the total consideration of $1.

f) following completion of the proposed transaction Mothercare PLC will offer to sell, waive or forgive all of its securities and bridging loans in and to Mothercare, to Mothercare, for the total consideration of $1.

g) following completion of the proposed transaction Mothercare will change its name to remove the "Mothercare" from its name.

1.3 The sum of $500,000 was received from Myer Family Company on 17 October 2012 and the Note issued as contemplated in the Term Sheet.

1.4 The Note for which Myer Family Company subscribed the sum of $500,000 on 17 October 2012 contained the following material provisions and terms;

a) repayable on written demand by the noteholder;

b) at the option of the holder up to $50,000 of the face value of the note may be converted to ordinary shares at a conversion price of $0.002;

c) subject to no default, there will be no interest payable on the note;

d) Mothercare Finance Limited, a wholly owned subsidiary of MPLC, provided security to Myer Family Company in the form of a charge over the mandatory convertible notes in Mothercare.

1.5 On 15 November 2012 the Implementation Agreement, as contemplated on the Term Sheet, was entered into between the following parties;

a) Skansen Pty. Limited as the Seller ("**Seller**");
b) The Myer Family Company Holdings Pty. Limited as the Buyer ("**Buyer**"); and
c) Mothercare Australia Limited as the Guarantor ("**Guarantor**").

1.6 This implementation Deed sets out in full detail the proposed arrangements between the parties, including the following material items;

a) The assets to be acquired by Myer Family Company under the proposed transaction are the shares in Skansen KCG Pty. Limited and at the same time the foregivenss of certain intercompany loans;
b) As Skansen KCG Pty. Limited owns the shares in Early Learning Centre Limited and Baby on a Budget Pty. Limited both these companies will form part of the sale assets. These three entities are the companies which currently hold the rights to the various brands and operate the retail outlets in Australia and New Zealand together with the three websites catering for on-line sales;
c) The intercompany loans that are to be foregiven are the loans by Mothercare and its subsidiaries (except Skansen KCG Pty. Limited and its subsidiaries) to Skansen KCG Pty. Limited and its subsidiaries. The total of these loans at the date on which the Implementation Agreement was signed, was $40.42m. The consideration for the acquisition of the assets, being the shares in Skansen KCG Pty. Limited and the foregiveness of certain intercomany loans, is cash consideration of $490,000, subject to section 1.8, together with forgiveness to Mothercare for a total consideration of $1 of;
   (i) 25,001,640 Mandatorily Converting Notes with a face value of $4,500,295.20;
   (ii) the Secured Note referred to in sections 1.3 and 1.4 with a face value of $500,000; and
   (iii) $770,000 bridging loan from Myer Family Company.

1.7 Mothercare's secured lender, ANZ Banking Group Limited, is required to approve the proposed transaction and agree to transfer all funding arrangements and underlying security to Skansen KCG Pty. Limited and its subsidiaries, and remove Mothercare Australia Limited and the dormant subsidiaries from being parties to the facility documents.

1.8 As at the date the Term Sheet was executed Mothercare had two litigation claims against it in process. The cash consideration payable by Myer Family Company was reduced from $500,000 to $490,000 following settlement of 1 claim. Upon settlement of the second claim, the cash consideration may be reduced by a further amount which cannot be quantified at this time.

2 PURPOSE OF INDEPENDENT EXPERT REPORT

2.1.1 The proposed transaction involves the disposal by Mothercare of all the shares in Skansen KCG Pty. Limited (and effectively its 2 wholly owned subsidiaries), to Myer Family Company, and the foregiveness of certain intercompany loans..

2.1.2 The shares in Skansen KCG Pty Limited and the intercompany loans represent the major assets of Mothercare.

2.1.3 Myer Family Company currently holds 10.83% of the issued shares in Mothercare and is classified as a substantial shareholder under Listing Rule 10.1.3. In accordance with ASX Listing Rule 10.1, the company is required to obtain the approval of the non-associated shareholders before entering into such a transaction.

2.1.4 The main business undertaking of the Mothercare Group is the business of the Mothercare and Early Learning Centre retail outlets operated by Skansen KCG Pty. Limited and its subsidiaries. The disposal of the shares in Skansen KCG Pty Limited would therefore constitute the disposal of the company's main undertakings and ASX Listing Rule 11.2 also requires that shareholder approval be obtained before the company enters into the proposed transaction.

2.1.5 ASX Listing Rule 10.10 sets out the requirements that must be met by the directors of the company when preparing the notice of meeting at which the proposed transaction is to be considered by the non-associated shareholders. One of the requirements of this Listing Rule, contained in Listing Rule 10.10.2, is that the notice of meeting must include a report on the proposed transaction from an independent expert and that such report must state, whether in the opinion of the independent expert, the proposed transaction is fair and reasonable to the non-associated shareholders.

2.1.6 The object of the provision of such a report from an independent expert is to assist the non-associated shareholders in their consideration as to whether or not to approve the proposed transaction.

2.1.7 The directors of Mothercare have engaged Pitcher Partners as the independent expert and commissioned us to prepare a report stating whether in my opinion the proposed transaction is fair and reasonable to the non-associated shareholders.

3 PROFILE OF MOTHERCARE

3.1 Company Overview

3.1.1 Mothercare was incorporated on 25 May 1993 and was listed on the ASX on 24 August 1993.

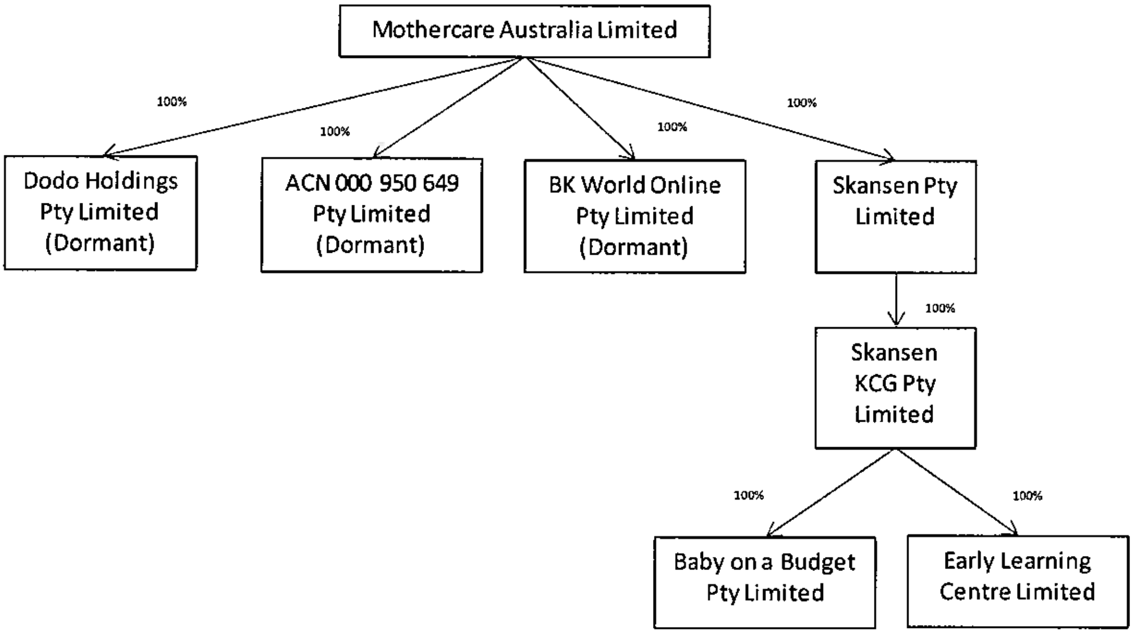
3.1.2 The company has had a number of different names throughout its history, as follows;

- Incorporation to 29 May 2003 - Skansen Holdings Limited
- 29 May 2003 to 29 October 2007 – Homeleisure Limited
- 29 October 2007 to 21 December 2010 – Headline Group Limited
- 21 December 2010 to date – Mothercare Australia Limited

3.1.3 All references to "Mothercare" or "the company" throughout this report are to the same company regardless of the fact that it may have had a different name at various times.

3.2 Group Structure

3.2.1 The current group structure for Mothercare and its controlled entities is as follows:



3.2.2 Skansen Pty Limited is the holding company for the investment in its subsidiary, Skansen KCG Pty Limited. Skansen KCG Pty Ltd was the entity formed in 2009 to merge the brands of Beanie Kids, Kids Central, Early Learning Centre and Mothercare (Australia and New Zealand).

3.2.3 Baby on a Budget Pty Limited is the company which owns the Baby on a Budget brand.

3.2.4 Dodo Holdings Pty Limited, ACN 000 950 649 Pty Limited and BK World Online Pty Limited are all dormant companies.

3.2.5 The above group consisting of Mothercare and its controlled entities is referred to as the "**Mothercare Group**"or "**the Group**").

3.3 Corporate Governance

3.3.1 At the date of this report, the directors of Mothercare are as follows:

Non-Executive Chairman
- Robert Gavshon

Non-Executive Directors
- Brent Ronald Dennison
- Jerry Cull
- David Edgar Shelmerdine

3.4 Capital Structure and Shareholders

3.4.1 As at the date of this report Mothercare has 212,920,557 ordinary shares on issue, of which 67.46% were held by the top ten shareholders. Mothercare also has 50,917,445 Mandatorily Converting Notes on issue, of which 97.79% were held by the top ten note holders. The following table shows the top 10 shareholders and note holders as at the date of this report.

Shareholder	Number of Ordinary Shares	% of Total Shares	Number of Mandatorily Converting Notes	% of Total Notes
Mothercare Finance Limited	49,063,500	23.04%	13,476,806	26.47%
J P Morgan Nominees Australia	26,447,486	12.42%	3,351,855	6.58%
M F Custodians Ltd	21,666,666	10.18%	16,668,306	32.74%
The Myer Family Company	-	-	8,333,334	16.37%
Perpetual Trustees	-	0.00%	4,085,000	8.02%
Mr Brent Dennison	9,506,770	4.46%	-	0.00%
Allegro Private Equity	7,750,001	3.64%	-	0.00%
J Edwards Investments Pty Ltd	7,000,000	3.29%	1,400,000	2.75%
Sarwill Pty Ltd	-	0.00%	1,248,479	2.45%
Marmar Super Pty Ltd	-	0.00%	500,000	0.98%
UBS Wealth Management	-	0.00%	426,028	0.84%
Jessfield Limited	5,373,748	2.52%	300,000	0.59%
Australian Executor Trustees	8,916,666	4.19%	-	0.00%
Mr Morgan Evan Williams	3,953,026	1.86%	-	0.00%
Mr Giuseppe Palumbo	3,952,922	1.86%	-	0.00%
Top 10	**143,630,785**	**67.46%**	**49,789,808**	**97.79%**
Other	69,289,772	32.54%	1,127,637	2.21%
Total	**212,920,557**	**100.00%**	**50,917,445**	**100.00%**

3.4.2 We note that Mothercare Finance Limited is a wholly owned subsidiary of MPLC.

3.4.3 The following table sets out the history of the acquisitions of shares in Mothercare by MPLC .

Date	Description	Mothercare PLC
01 Oct 2010	43,620,000 ordinary shares acquired by Mothercare Finance Limited for cash consideration of $12.2 million	43,620,000
26 Nov 2010	5,443,500 ordinary shares issued following exercise of option to maintain its shareholding at 25%	5,443,500
Total		**49,063,500**
% Ownership		**23.04%**

3.4.4 We also note that MF Custodians limited holds the shares and notes on behalf of the Myer Family Company. See section 4.1.4 for the details of the acquisition of the shares in Mothercare by Myer Family Company.

3.4.5 Sarwill Pty Limited is a private company controlled by Mr Robert Gavshon.

3.5 Mandatorily Converting Notes

3.5.1 The Mandatorily Converting Notes were issued on 5 October 2011 to Shareholders via a non-renounceable rights issue of one new Mandatorily Converting Note for every 5 shares held, at $0.18 per security. The rights issue aimed to raise up to approximately $7.6m.

3.5.2 The Mandatorily Converting Notes were subject to the following terms and conditions:

- 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.;
- carry no voting rights;
- only repayable on a winding up of the company;
- each note may be converted into one ordinary share in Mothercare at the election of the holder at any time;
- each note will convert automatically into one ordinary share on the third anniversary date of issue, or earlier if, the company's share price exceeds $0.35 for any consecutive 90 day period, subject to the company exercising that right within 30 days of the end of the period;
- The notes are secured by a second ranking fixed and floating charge over all of the Mothercare Group's assets and the returns to noteholders on a winding up will be limited to the proceeds after repayment of the first ranking security.

3.5.3 We understand that no interest on these notes had actually been paid to date, although the amount payable had been accrued in the relevant accounts for 30 June 2012 and 30 September 2012.

3.5.4 The total amount to be raised of $7.6m was to be comprised of the conversion of working capital loans already provided by Mothercare Finance Limited and Myer Family Company of $3.5m in total. Approximately 60% of the notes available under the offer were taken up by shareholders, and the underwriters, being Myer Family Company, Mothercare Finance Limited and Sarwill Pty. Limited, took up the balance.

3.5.5 At the same time that the Notice of Annual General Meeting is to be sent to Shareholders, a Notice of Meeting of Noteholders and Information Memorandum is also to be issued to the Noteholders.

3.5.6 At the meeting of Noteholders to be held immediately prior to the Annual General Meeting, the Noteholders will be asked to approve the amending of the terms of the Trust Deed so that:

(i) *the face value of each Note is equal to that Note's pro rata share of 100% of the amount equal to the cash component of the proceeds of the sale of the Sale Shares to Myer Family Company less any remaining debt owing by the Company and an allowance for working capital; and*

(ii) *the Notes are not guaranteed, convertible or secured and do not have interest payable in respect of them;*

3.5.7 The overall effect of the proposed amendments to the Trust Deed for the Noteholders is that the amount that will be received by each noteholder will be the proportional entitlement to the cash consideration of $490,000 less the remaining debts owing by the company and an allowance for working capital. I am advised that the remaining debts owing by the company will be approximately $140,000 and the working capital $110,000.

3.5.8 Thus using the estimates in section 3.5.7 above, the balance of the cash consideration which will be available to repay the holders of the Mandatorily Converting Notes is $240,000.

3.5.9 As part of the other transactions associated with the proposed transaction, Mothercare Finance Limited and Myer Family Company have agreed to forgive the company any obligtions with respect to their holdings of the notes for an overall consideration of $1 for each parcel.

3.5.10 Thus the total funds available to the holders of the Mandatorily Converting Notes will be available to all the holders with the exception of Mothercare Finance Limited and Myer Family Company.

3.5.11 The total number of Mandatorily Converting Notes issued was 50,917,445, and after the forgiveness by Mothercare Finance Limited and Myer Family Company of their notes the number remaining will be calculated as follows;

	Number of Notes	Number of Notes
Number if Mandatorily Converting Notes Issued		50,917,445
Less Notes to be sold back to the company by		
▪ Mothercare Finance Limited	13,476,806	
▪ Myer Family Company	25,001,640	
Subtotal		38,478,446
Balance of Notes on Issue		**12,438,999**

3.5.12 If the overall share of the consideration from Myer Family Company available to the noteholders if the proposed transaction is approved is $240,000 as set out in section 3.5.8, then each note would be entitled to receive the amount of $0.0193 on its redemption.

3.6 Nature of Business

3.6.1 The principal activities of the Mothercare Group are now the sale of;

- educational toys;
- parenting and children's products; and
- mother and children's fashion.

3.6.2 The Group is focused on marketing and retailing its exclusive brands to the Australian and New Zealand parenting and children's market.

3.6.3 There are currently 44 Mothercare/ Early Learning retail outlets in Australia with stores in 6 Australian States. Early Learning Centre also has 1 retail outlet located in each of Wellington and Auckland, New Zealand and Mothercare has a retail outlet in Mt Wellington, New Zealand.

3.6.4 There are also three websites catering to the online market.

3.7 Recent Transactions

3.7.1 The major transactions entered into by Mothercare over the last 3 years are set out below;

3.7.2 By June 2008 Mothercare had only one business unit, being a gift wear range using the Skansen brand. Part of this range included the brand "Beanie Kids. On 22 June 2009, Mothercare (at that time known as Headline Group Limited) announced that it was in the final stages of closing a transaction to merge its "Beanie Kids" brand with the Kids Central Group. The Kids Central Group held the rights in Australia and New Zealand to the toy brand Early Learning Centres, and had its own network of retail outlets. It also had the exclusive rights to the "Mothercare" brand in Australia which it planned to begin rolling out with Skansen's support in the first quarter of 2010.

3.7.3 The Contracts for this merger were exchanged on 24 August 2009. A new entity, Skansen KCG Pty Limited, was established to hold the merged business's, with Mothercare owning 68% and the former shareholders and management of Early Learning Centres holding 32%. During 2010 Mothercare acquired the 32% interest in the merged entity though the issue of shares and convertible notes to the then minority shareholders of Skansen KCG Pty Limited.

3.7.4 On 21 September 2010 Mothercare acquired the operating assets of the Babies Galore business including taking over up to 13 of the Babies Galore stores and with access to a 70,000 strong customer database and online technology assets. The consideration for this acquisition was $8.8 million plus contingent liabilities assumed of $1 million. To fund the acquisition costs both Myer Family Company and Allegro Private Equity each provided $5 million capital.

3.7.5 Myer Family Company provided the funds initially by way of convertible notes which would convert into 16.667 million Mothercare ordinary shares upon Mothercare shareholder approval and MPLC approval. At the Annual General Meeting of Mothercare held on 30 November 2010 the shareholders approved the conversion to 16.667 million ordinary shares.

3.7.6 Allegro Private Equity's $5 million investment was provided in return for 16.667 million ordinary shares in Mothercare. Allegro also nominated a Director to the Board of Mothercare at that time.

3.7.7 On 1 October 2010 Mothercare acquired 100% of the issued capital of the Western Australian based mother and baby chain called "**Baby on a Budget**" for consideration valued at $2 million being:

- $1 million cash;
- The issue of 3,333,334 ordinary shares of $0.30 per share in Mothercare equal to $1 million;
- There was also contingent consideration being the fair value of the expected future earn out to the vendors of Baby on a Budget, valued at $0.5 million which when payable would be a mixture of cash and shares in Mothercare. The expected future earn out was not achieved therefore the overall purchase price remained at $2m.

3.8 Current Status of the Business

3.8.1 As at November 2012 Mothercare has 44 stores trading under the Mothercare/ Early Learning Centre brands in Australia as well as two Early Learning Centre branded stores and one Mothercare branded store in New Zealand. It also has 3 websites catering to ecommerce, being Mothercare, Early Learning Centre and Babies Galore.

3.8.2 The following table sets out the location of the stores for both Mothercare and Early Learning Centres brands.

Store	City	State
MC DFO Canberra	Fyshwick	ACT
MC Artarmon	Artarmon	NSW
MC Belrose	Belrose	NSW
MC Birkenhead Point	Drummoyne	NSW
MC Bondi	Bondi Junction	NSW
MC Castle Hill	Castle Hill	NSW
MC Chatswood	Chatswood	NSW
MC Erina	Erina	NSW
MC Kotara	Kotara	NSW
MC Penrith	Penrith	NSW
MC Rhodes	Rhodes	NSW
MC Taren Point	Taren Point	NSW
MC Top Ryde	Ryde	NSW
KC EQ	Moore Park	NSW
KC Hornsby	Hornsby	NSW
KC Kotara	Kotara	NSW
ELC Bondi	Bondi Junction	NSW
ELC Erina	Erina	NSW
ELC Miranda	Miranda	NSW
MC Mt Wellington	Auckland	NZ
ELC Newmarket	Auckland	NZ
ELC Wellington	Wellington	NZ
MC Chermside	Chermside	QLD
MC Loganholme	Loganholme	QLD
MC MT Gravatt	Upper MT Gravatt	QLD
MC Rockhampton	North Rockhampton	QLD
MC Townsville	Garbutt	QLD
KC Pacific Fair	Pacific Fair	QLD
ELC Indooroopilly	Indooroopilly	QLD
ELC MT Gravatt	Upper MT Gravatt	QLD
KC Marion	Oakland Park	SA
MC Chadstone	Chadstone	VIC
MC Doncaster	Doncaster	VIC
MC Highpoint	Marinbyrnong	VIC
MC Knox	Wantirna South	VIC
KC Doncaster	Doncaster	VIC
KC Geelong	Geelong	VIC
KC Southland	Cheltenham	VIC
KC The Glen	Glen Waverley	VIC
KC Vic Gardens	Richmond	VIC
MC Cannington	Cannington	WA

Store	City	State
MC Cockburn	Cockburn	WA
MC Joondalup	Joondalup	WA
MC Myaree	Myaree	WA
MC Port Kennedy	Port Kennedy	WA
KC Claremont	Claremont	WA
ELC Booragoon	Booragoon	WA

3.8.3 The major brands featured online and in store include: -

▪ BabyBjorn	▪ JollyKidz	▪ Pabobo
▪ Baby Jogger	▪ Love to dream	▪ Pea Pods
▪ Babyhood	▪ Maxi-Cosi	▪ Peg-Perego
▪ Babylove	▪ Medela	▪ Phil & Teds
▪ Bambino Mio	▪ Mothercare	▪ Philips Avent
▪ Boori Country Collections	▪ Mother's Choice	▪ Quinny
▪ Bumbo	▪ Mountain Buggy	▪ Safe n Sound
▪ Closer to Nature	▪ Mr Sheepskin	▪ Silver Cross
▪ Cocalo	▪ OK Baby	▪ Steel Craft
▪ Ergobaby	▪ Oricom	▪ Stokke
▪ Infa-secure	▪ Outlook	▪ Tasman Eco

3.9 Financial Position

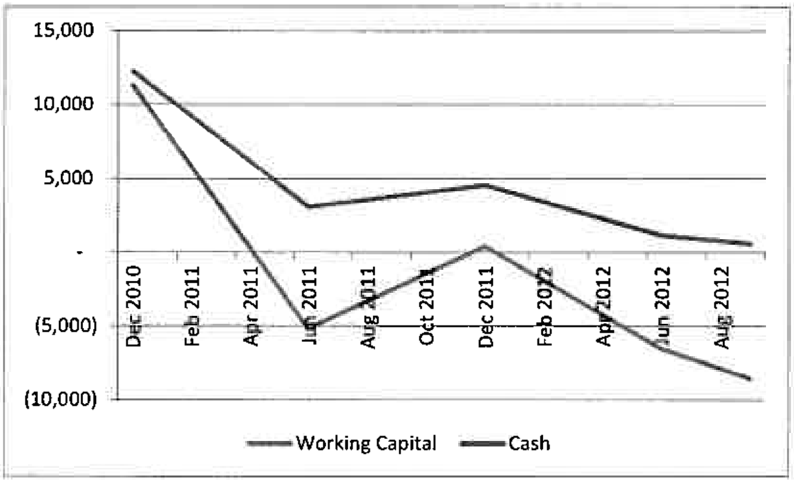
3.9.1 The financial position of Mothercare as at 31 December 2010, 30 June 2011, 31 December 2011, 30 June 2012 and 30 September 2012 is summarised in the table below:

	31 Dec 2010 Reviewed $'000	30 Jun 2011 Audited $'000	31 Dec 2011 Reviewed $'000	30 Jun 2012 Audited $'000	30 Sep 2012 Management $'000
Current Assets					
Cash at bank and in hand	12,251	3,064	4,553	1,125	561
Trade and Other Receivables	460	283	704	358	697
Finished Goods - at net realisable value	19,990	21,297	21,718	16,053	18,673
Derivative financial instruments	-	-	8	-	
Other assets	373	429	579	247	370
Total Current Assets	**33,074**	**25,073**	**27,562**	**17,783**	**20,301**
Non-Current Assets					
Plant and Equipment at Cost	11,012	11,596	13,795	12,690	11,957
Intangible Assets	9,224	8,737	8,681	8,623	8,595
Deferred Tax Assets	984	1,217	1,567	1,612	1,612
Total Non-Current Assets	**21,220**	**21,550**	**24,043**	**22,925**	**22,164**
Total Assets	**54,294**	**46,623**	**51,605**	**40,708**	**42,465**
Current Liabilities					
Trade and other Payables	12,561	15,715	18,344	14,500	18,694
Trade Finance	6,001	6,963	5,758	5,010	4,664
Provisions	2,148	2,884	2,924	3,124	2,851
Borrowings	144	4,513	150	1,690	2,650
Derivative Financial Instruments	931	184	-	-	-
Total Current Liabilities	**21,785**	**30,259**	**27,176**	**24,324**	**28,859**
Non-Current Liabilities					
Trade Payables		-	2,143	2,170	2,170
Provisions	1,017	1,159	2,363	1,773	1,840
Borrowings	953	-	788	725	1,847
Total Non-Current Liabilities	**1,970**	**1,159**	**5,294**	**4,668**	**5,857**
Total Liabilities	**23,755**	**31,418**	**32,470**	**28,992**	**34,716**
Net Assets	**30,539**	**15,205**	**19,135**	**11,716**	**7,749**
Equity					
212,920,556 ordinary shares fully paid	57,825	57,825	57,825	57,825	57,825
50,899,654 Mandatory Converting Notes	-	-	7,407	8,820	8,820
Reserves	(2,302)	(2,303)	(2,305)	(2,300)	(2,300)
Accumulated Losses	(24,984)	(40,317)	(43,792)	(52,629)	(56,596)
Total Equity	**30,539**	**15,205**	**19,135**	**11,716**	**7,749**

3.9.2 A detailed Statement of Financial Position as at each date is provided at Schedule 1 of this report.

3.9.3 As at 30 June 2012, Mothercare had net assets of approximately $11.7 million of which $8.6 million was represented by Intangible Assets, and with a working capital deficit (current assets less current liabilities) of approximately $6.5 million.

3.9.4 The following table sets out the historical trend for the cash holdings and net working capital from 31 December 2010 to 30 September 2012.



3.9.5 As can be seen from the above table cash holdings had reduced significantly from $12 million in December 2010 to $0.5 million in September 2012.

3.9.6 Net working capital follows a similar trend to cash, dropping from a surplus of $11 million in December 2010 to a deficit of $8.5 million as at September 2012.

3.9.7 The overall deterioration in the net working capital position has resulted from the poor trading of the business carried on by Mothercare. This continued erosion of working capital has occurred despite the inflow of funds which resulted from the rights issue carried out in September / October 2011, and the further loans from the major shareholders since that date, being firstly the sum of $770,000 each from MPLC and Myer Family Company and then the further $960,000 from Mothercare Finance Limited in July 2012.

3.9.8 The following table sets out the amount of capital raised by way of issue of shares, convertible notes and borrowings for the period 1 July 2009 to 30 September 2012. As can be seen from the table below Mothercare has raised in total $34.7 million over this period.

	30 Jun 2010 $'000	30 Jun 2011 $'000	30 Jun 2012 $'000	30 Sep 2012 $'000	Total $'000
Net proceeds from convertible note issue	-	-	5,320		5,320
Proceeds from borrowings	774	3,879	-		4,653
Proceeds from borrowings - related parties and shareholders	-	3,500	1,540	960	6,000
Proceeds from issue of shares	-	18,724	-		18,724
Total	**774**	**26,103**	**6,860**	**960**	**34,697**

3.9.9 The major capital acquisitions where part of the purchase consideration was provided by way of cash are set out in the following table;

	$'000
Acquisition of Babies Galore	3,800
Acquisition of Baby on a Budget	1,000
Total	**4,800**

3.9.10 The following table sets out the repayment of the external debt and payment for property, plant, equipment for store fit outs which took place over this period.

	$'000
Purchase of property, plant and equipment for the financial year ended 2011	6,138
Purchase of property, plant and equipment for the financial year ended 2012	4,575
Repayment of external borrowings for the financial year ended 2011	2,500
Repayment of external borrowings for the financial year ended 2012	2,091
Total	**15,304**

3.9.11 Taking into account the cash portion of the consideration for business acquisitions of $4.8 million and the repayment of external debt and payment of property, plant and equipment of $15.3 million, this leaves a total of $14.6 million of the funds raised over the period which has been utilised in funding the general working capital needs of the business, which as noted in section 3.9.6 below, have been negative due to the cash deficiencies from operations that have been generated.

3.10 Financial Performance

3.10.1 The financial results of Mothercare for the financial years ended 30 June 2011 and 30 June 2012, together with the results for the September 2012 quarter are summarised below.

	Year Ended 30 Jun 2011 Audited $'000	Year Ended 30 Jun 2012 Audited $'000	Quarter Ended 30 Sep 2012 Management $'000
Revenue from sales of goods	65,657	79,371	16,748
Cost of sales	(40,475)	(47,361)	(10,090)
Gross Profit	25,182	32,010	6,658
Other Income	108	698	234
Interest Income	336	24	
	25,626	32,732	6,892
Operating expenses	48,119	45,439	10,859
Loss from continuing operations before income tax and gain on acquisition	(22,493)	(12,707)	(3,967)
Gain on acquisition	596	-	-
Loss from continuing operations before income tax	(21,897)	(12,707)	(3,967)
Income Tax Benefit	594	395	-
Loss from continuing operations after income tax	(21,303)	(12,312)	(3,967)
Profit from discontinued operations	35	-	-
Loss for the year	(21,268)	(12,312)	(3,967)
Other comprehensive income, net of tax			
Exchange differences on translation of foreign operations	25	3	-
Total comprehensive income for the year	(21,243)	(12,309)	(3,967)

3.10.2 On Schedule 2 to this report I have set out a more detailed analysis of the financial results for each period.

3.10.3 The result for the year ended 30 June 2012 for Mothercare was a loss of $12.7 million. This is a significant improvement from 30 June 2011 result for which the net loss was $22.5 million. The following factors were highlighted in the Chairman's address and the 2012 annual report as contributing to the improvement:

- Total revenue increased by 21% to $79 million reflecting the full year effect of stores opened or acquired in the previous financial year and stores converted or relocated in the year to 30 June 2012.
- Sales generated from the large format Mothercare stores grew by 9.3% and Mothercare online sales increased by 43%.
- Gross margin improved by 1.9% due to lower levels of clearance activity, better sales mix and some improvement in trading terms.
- There were six unprofitable stores closed during the year.

3.10.4 Despite the improvement of 2012 over 2011, Mothercare still reported an overall loss of some $12.7 million.

3.10.5 For the September 2012 quarter the result was a further loss of $3.9 million.

3.11 Historical Cash Flow

3.11.1 The historical cash flows for Mothercare for the financial years ended 30 June 2011 and 30 June 2012 extracted from the relevant financial reports are summarised below.

Statement of Cash Flows	30 Jun 2011 Audited $'000	30 Jun 2012 Audited $'000
Net Cash Flows Used in Operating Activities	(16,217)	(2,382)
Net Cash Flows Used in Investing Activities	(8,878)	(4,575)
Net Cash Flows Provided by Financing Activities	23,603	4,769
Net Decrease in Cash and Cash Equivalents	(1,492)	(2,188)
Cash and Cash Equivalents at the Beginning of the Year	4,805	3,313
Cash and Cash Equivalents at the End of the Year	3,313	1,125

3.11.2 On Schedule 3 to this report I have set out a more detailed analysis of the cash flow for each year.

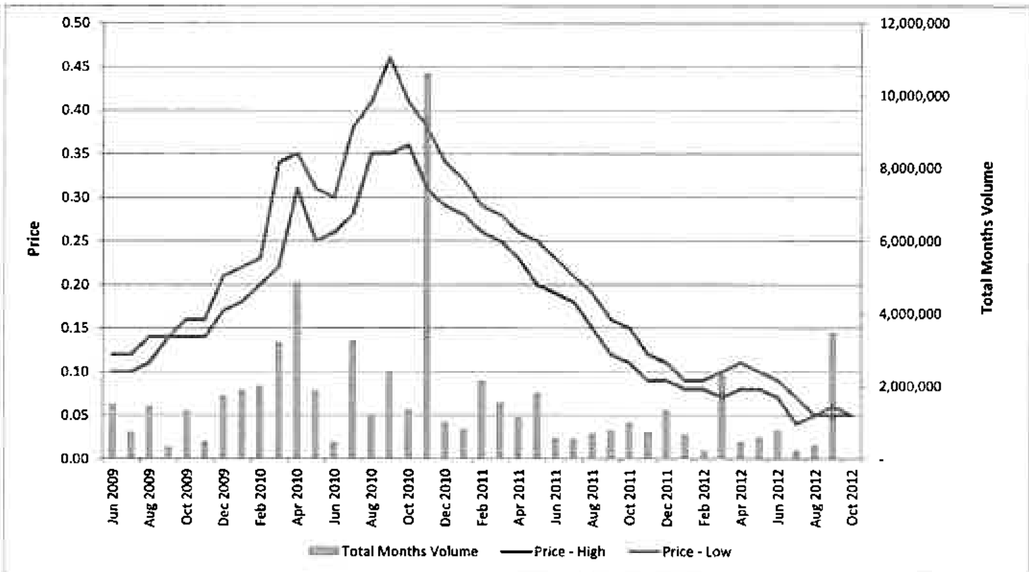
3.11.3 For the year ended 30 June 2011, Mothercare had a deficiency in cash from operations of $16.2m. Whilst the result for 2012 was a considerable improvement over 2011, it was still a shortfall of $2.4m.

3.12 Share Price Analysis

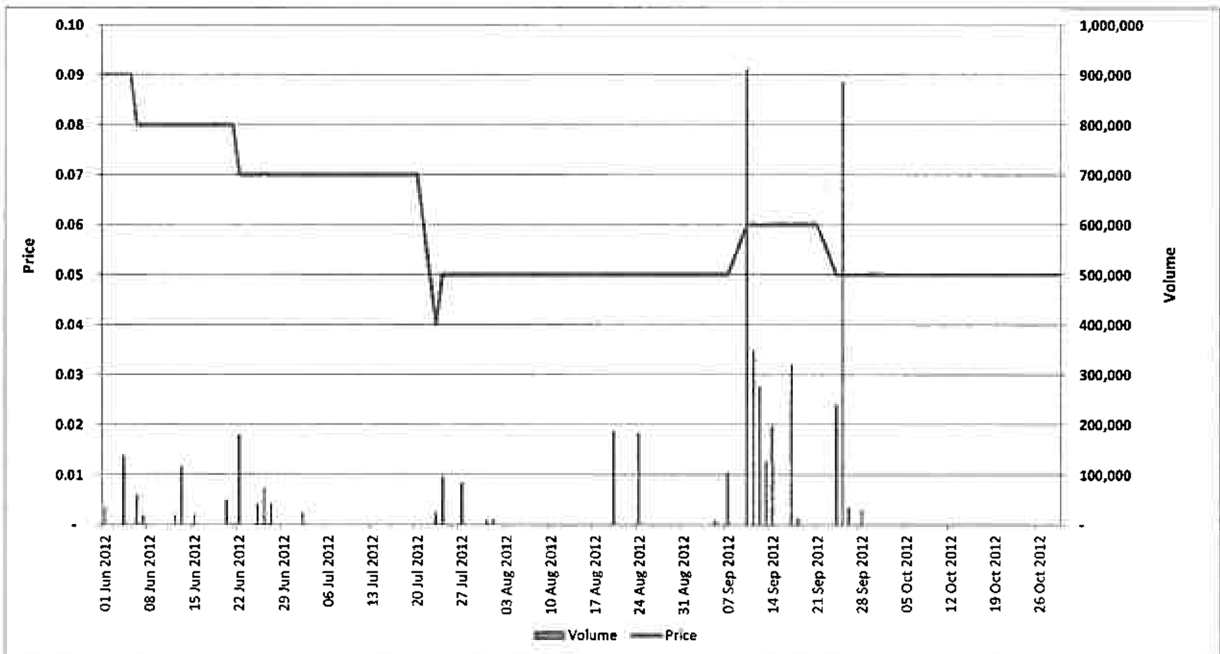
3.12.1 When the Company first floated the share price opened at $0.70 and the highest share price reached was $1.30 on 31 January 1994. Since this time the price has gradually declined to its current level $0.05 before the trading halt on 1 October 2012. It is noted that the nature of the Company's activity has changed over time from a business primarily around gift ranges to the current model around parenting and children's products.

3.12.2 The following chart sets at the monthly high and low share price and the total monthly volume for the period from June 2009 to October 2012. We have selected this period to highlight the trend since June 2009 when the merger of the "Beanie Kids" brand and the Kids Central Group was undertaken.

3.12.3 The share price increased to a high of $0.46 in September 2010 which was when the acquisition of the operating assets of the Babies Galore business by Mothercare was undertaken. The share price has gradually declined since then to $0.05 before the trading halt.



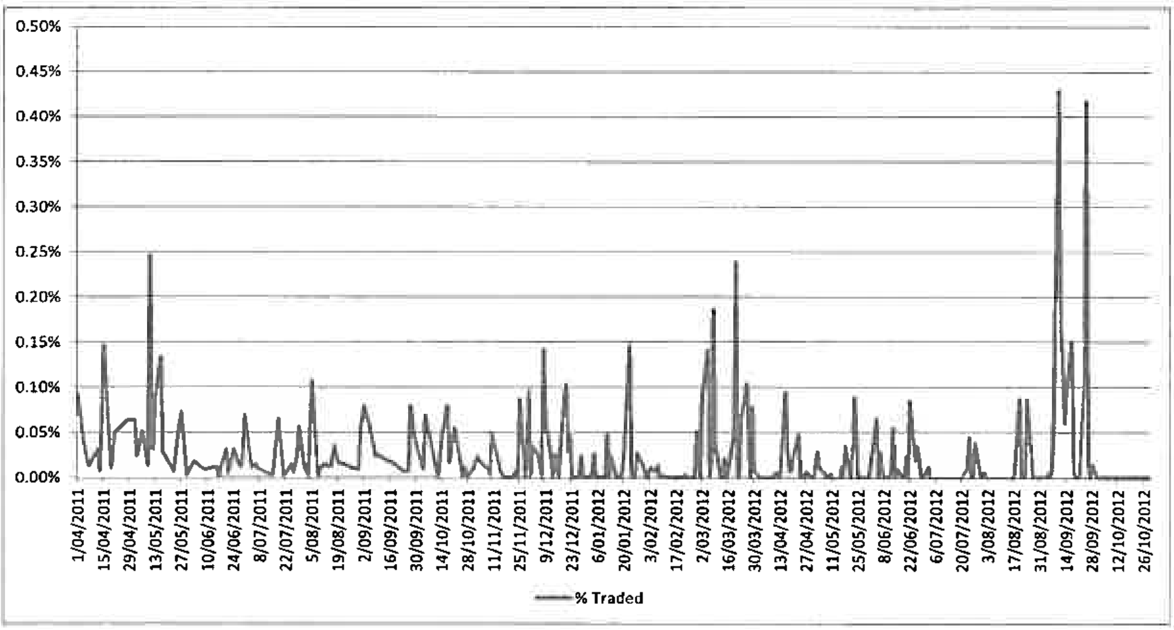
3.12.4 In order to provide a more detailed analysis of the share price and volumes traded leading up to the proposed transaction we have set out below a chart showing the daily closing share price and traded volumes for each day for Mothercare shares on the ASX for the period from 1 June 2012 to 1 October 2012. From the review of the chart we note that there were spikes in the volume of shares traded on both 10 September 2012 and 25 September 2012. We also noted that because of the increased demand for the shares a price increase from $0.05 to $0.06 resulted. We have queried management as to whether they are able to provide any explanation for these spikes in volume, but they were not aware of the reasons. We note however that both volumes represented less than 0.5% of the total shares issued.



3.12.5 During the period leading up the announcement of the proposed transaction there were a number of announcements made on the ASX for the period from January 2012 to October 2012 as set out in the following table which may have been expected to have some impact on the volumes traded and the prices achieved. We note however that these announcements do not appear to have had any impact on the volumes traded or prices achieved. Clearly since the trading halt was announced on 1 October 2012 there have been no further on-market trades in Mothercare's securities since that date.

Date	Announcements
19/01/2012	Announced like-for-like sales growth of 3.1% and total sales growth of 7.2% during the second quarter of the 2011/12 financial year. The Company successfully completed the rollout of the five stores that were planned for Q2. In addition to the already announced opening of Chermside in Brisbane, the Company opened a further four stores during the quarter.
29/02/2012	Issue of Half Year Report and Accounts for the Half Year ended 31 December 2011.
16/03/2012	The issue of the Cleansing Statement for the purposes of section 708A(12C)(e) of the Corporations Act 2001 to enable fully paid ordinary shares in the capital of Mothercare Australia Limited to be issued on conversion of mandatorily converting notes issued by the Company to the Myer Family Company Holdings Pty Limited to be onsold to retail investors without a prospectus.
31/08/2012	Issue of Preliminary Final Report for the financial year ended 30 June 2012.
01/10/2012	Issue of Annual Report to shareholders for the financial year ended 30 June 2012.
01/10/2012	Trading halt.
03/10/2012	Suspension from Official Quotation.
09/10/2012	On 3 October the Company requested that its securities be suspended from quotation. The negotiations have not been finalised and the Company will make an announcement on 10 October 2012.
10/10/2012	Mothercare announces that it has signed a Term Sheet with the Myer Family Company Holdings Limited (MFCoH) for MFCoH to acquire the business of Mothercare Australia Limited.
26/10/2012	Mothercare Australia Limited advises that the Australian Securities and Investment Commission has granted an extension to the time by which the company must hold its Annual General Meeting to 17 December 2012.

3.12.6 In addition to the analysis of the share price above at paragraph 3.12.1 we have included below a chart showing the daily traded volumes as a percentage of total ordinary shares in Mothercare available for the period from 1 April 2011 to 1 October 2012 when the trading halt was announced.



3.12.7 As at the date of this report the total number of shares issued is 212,920,557 and we have been instructed that there have been no shares held in escrow during this period. Thus the total issued shares were in principle available to be traded at any time.

3.12.8 As can be seen from the above table Mothercare shares are thinly traded on the ASX. At no time has the volume of shares traded on the ASX exceeded 0.43 % of the ordinary shares on issue and as such the price at which shares are trading on the ASX can only at best be an indication of what the value for a very small parcel of shares would be.

3.13 Events subsequent to Balance Date

3.13.1 I am advised by the directors of Mothercare that, as at the time they were preparing the 2012 annual financial report for the group, they were in negotiations with two different investors who were considering providing necessary working capital, in the form of equity, to the group.

3.13.2 At the time of signing the accounts the directors had reason to believe that at least one of the proposals being considered would proceed.

3.13.3 The cash flow forecasts prepared by the management and directors at that time took into account the inflow of capital in October 2012 of $500,000 which was received from Myer Family Company.

3.13.4 These cash flow forecasts also took into account a further sum of $3.5 million which they reasonably expected to receive around December 2012 from one or other of the parties with whom negotiations had been continuing.

3.13.5 On the basis of these cash flow forecasts and assumptions the directors considered that the accounts should be prepared on the basis of a going concern.

3.13.6 Subsequent to 30 September 2012, being the date on which the 2012 accounts were signed by the directors, the negotiations with both parties considering providing capital to Mothercare were terminated by those parties.

3.13.7 At the same time as the negotiations referred to in section 3.13.6 ceased, the current offer from Myer Family Company was received.

3.13.8 The directors have advised that they have not been able to identify any other potential source of raising capital for the Mothercare business, and nor have they received any better offer for the sale of the business assets of the group than the offer received from Myer Family Company.

3.13.9 In these circumstances the directors have considered the alternatives available to them on behalf of the business carried on by Mothercare and believe that there are only 2;

(i) to accept the proposal from Myer Family Company, or
(ii) to place Mothercare into voluntary administration.

3.14 Likely Outcome if the Directors Appoint an Administrator to Mothercare

3.14.1 In the circumstances where the proposed transaction is not approved by the non-associated shareholders of Mothercare, the directors have advised that the only course of action that they will then have available to them is to place the company, and its wholly owned subsidiaries, into voluntary administration.

3.14.2 The directors are clearly concerned that without the additional capital that they had expected to raise and have invested in the company by December 2012, the cash flow forecasts would show that the company could not continue to trade and pay its debts as and when they were to fall due throughout the second half of the ensuing 12 month period.

3.14.3 Whilst I am not an insolvency expert I have discussed the matter with one of my partners who is a registered insolvency practitioner and now provide my general understanding of the steps and processes that an administrator appointed to Mothercare is likely to go through and what the likely outcome would be for the shareholders and holders of the Mandatory Converting Notes.

- An administrator appointed to the group would take control of all the assets and business operations of the group. In a very short space of time the administrator would need to assess the viability of each individual store and would be likely to immediately close any stores that were not profit making and cash flow positive.
- The administrator would also be likely to consider whether to keep the head office operating and administration staff employed.
- Mothercare does own the rights to a number of well-known brands for the Australian and New Zealand market. These rights are, however, held under licence from the owners of the brands. The respective licence agreements all contain clauses which result in the agreements being terminated if an insolvency event occurs. The appointment of an administrator would constitute an insolvency event.
- MPLC and the other owners of the brands would have the option of agreeing to the licencing arrangements continuing under new ownership, but there is no certainty that such agreement would be provided.

3.14.4 Since the introduction of the Personal Property Security Act ("**PPSA**"), which came into effect from 30 January 2012, there are now very strict rules as to the manner in which an administrator may deal with stock which comes under its control during the administration process. For example where stock has been registered to a supplier under the PPSA, an administrator must generally either return the goods to that supplier, or pay the supplier the full amount outstanding for those goods. I have conducted searches on the Personal Property Security Register and found that the major suppliers to Skansen KCG Pty Limited and Babies on a Budget Pty. Limited have registered their interest in the trading stock supplied to those companies.

3.14.5 There are many other factors which an administrator would also need to consider when deciding whether to try and sell the business as a going concern, including the ability to assign or re-negotiate the leases for the retail outlets, the level of employee entitlements and the interests of the secured creditors.

3.14.6 How the administrator ultimately decides to dispose of the assets will depend upon the facts in each case, but the order in which any proceeds from such disposals will generally need to be applied by the administrator is in the following;

- Payment to suppliers for stock registered under the PPSA in relation to any such stock that the administrator decides to sell rather than return to the supplier;
- The administrator's fees
- The first ranking secured creditors
- Second and further ranking secured creditors – noting that the Mandatorily Converting Notes are considered to rank immediately after the holders of the first ranking security.

3.14.7 I note that the administrator in such a role does not deal with payments to employees and other unsecured creditors. Such payments and obligations are dealt with by the persons appointed to further roles on behalf of the company, as discussed in section 3.14.8 below.

3.14.8 Following completion of the above the administrator's role is normally complete and the next step would either be the establishment of a Deed of Company Arrangement, or the appointment of a liquidator in cases where the company is insolvent. If the administrator had any surplus cash remaining after the payments referred to in section 3.13.6 above, this would be passed over to the new administrator for the Deed of Company Arrangement or the liquidator.

3.14.9 Using the order of preference set out in 3.13.6 above, the amounts which would due to be paid out by an administrator, in order or priority, would be;

a. Payment for stock to suppliers – assuming that 100% is registered under the PPSA. We have been advised by the directors that the total sum owing to creditors for stock purchases as at 30 September 2012 was $15.5m;
b. Administrators fees estimate to be minimum of $400k;
c. The first ranking secured creditor, being ANZ Banking Group Limited - total $875,000 in loans and trade finance facilities drawn of $4.7 million.
d. Holders of the second ranking security, being the holders of the Mandatorily Converting Notes – 50,917,445 at $0.18 each - $9.165 million together with outstanding accrued interest of $1 million.

3.14.10 These payments alone would require the administrators to raise a minimum of $21 million to meet the PPSA registered creditors, the fees and the first ranking creditor and in total $32 million if payment to the holders of the Mandatorily Converting Notes was also able to be made.

3.14.11 Unless the administrators are able to obtain the consent of all licensors for the brands, and landlords for the retail outlets, it would be impossible for them to be able to arrange for a sale of the business as a going concern. Even if such consents were obtained and the sale as a going concern negotiated, a purchase price of $21 million or greater would require an EBITDA generated from the business of in excess of at least $2.5 million positive (actual EBITDA for the September 2012 quarter was a loss of $2.9 million). It is totally unrealistic to expect that a sales price of $21 million or greater for the business as a going concern would be achieved.

3.14.12 In these circumstances there would certainly be no funds available to distribute to the holders of the ordinary shares in Mothercare following the completion of the administration. The value of the ordinary shares to the non-associated shareholders should the proposed transaction not be approved by the non-associated shareholders, and an administrator be appointed to Mothercare, would therefore be zero.

4 PROFILE OF MYER FAMILY COMPANY HOLDINGS PTY LIMITED

4.1 Company Overview

4.1.1 The Myer family, through its corporate entities, now manages a broad range of investments in Australia and internationally, and also maintains significant philanthropic activities through the Sidney Myer Fund and The Myer Foundation.

4.1.2 The Myer Family Company is a diversified investment and financial services business. It manages and administers investment portfolios and funds, and advises clients across investment, taxation, accounting, family governance, generational succession, estate planning and philanthropy. As one of a small number of licenced traditional trustee companies, the Myer Family Company is also able to take care of the affairs of its clients in the capacity of trustee. Clients include families, individuals, corporations, foundations and charities.

4.1.3 At the date of this report, the directors of Myer Family Company Holdings Pty. Limited (" **Myer Family Company**") are as follows:

- Martyn Kenneth Myer (Chairman)
- Charles George Clark (Deputy Chairman)
- Sidney Hordern Myer
- Carrillo Baillieu Gantner
- Peter John Hodgson
- Lloyd Hartley Jones
- Vickki Mcfadden
- Ann Caroline Sherry
- Stephen Ross Shelmerdine
- Andrew Vallejo Myer

4.1.4 The following table sets out the details of the acquisition of shares in Mothercare by Myer Family Company who are substantial shareholders of Mothercare.

Date	Description	Myer Family Company
17 Nov 2010	Sale by Gordon Elkington (former Executive Chairman) to Myer Family Company for $1.75m cash	5,000,000
18 Jan 2011	Conversion of Notes to Ordinary Shares – see paragraph 3.7.4	16,666,666
Total		**21,666,666**
% Ownership		**10.18%**

5 OVERVIEW OF THE BABY PRODUCTS INDUSTRY

5.1.1 The following information has been obtained from the IBIS World Report dated June 2012 entitled "Baby Products in Australia".

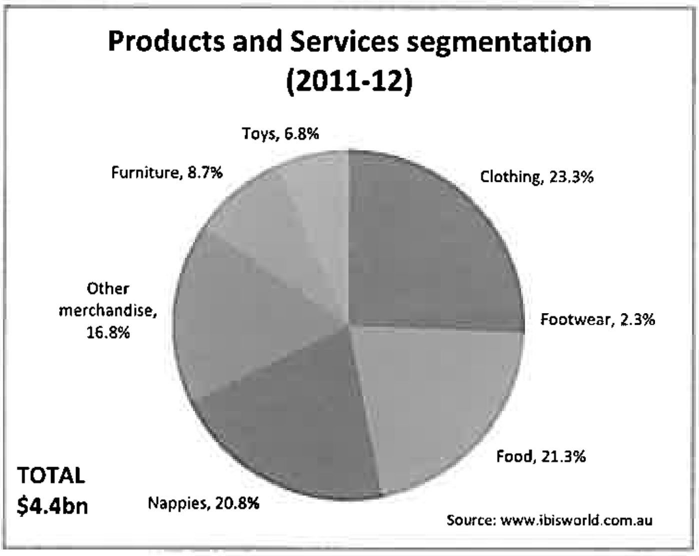
5.1.2 The industry is characterised by a large number of small operators, with no branded store "group" accounting for more than 5.0% of market share. Analysis indicates that the top four baby stores represent approximately 8.0% of market share. It is estimated that department stores account for about 30% of the market. Pumpkin Patch is the largest retailer, followed by Baby Bunting, Toys 'R' Us and Rafferty's Garden. The differentiating factor between these stores and Mothercare/ Early Learning Centre is that the Mothercare/ Early Learning Centre stores contain a diverse range of products whereas the chains referred to above have their own speciality and niche market.

5.1.3 The baby product industry is in a mature stage of its life cycle. There is no doubt that demand for some segments of the baby market is on the rise. However, this is not large enough to alter the industry's life cycle. The size of the industry has experienced moderate growth in the number of new baby stores over the past five years. However, offsetting this growth is a high level of consolidation and takeover activity by the industry's larger players.

5.1.4 Demand for baby products is largely driven by couples between the ages of 25 and 39 years. Over the past ten years, couples ages 30-34 years have driven the birth rate in Australia, while those aged between 15 and 24 years have been steadily declining. This provides retail opportunities for higher-end baby products, and further growth in brand baby merchandise like Gucci Baby and Dior Baby.

5.2 Products and Services

5.2.1 The following diagram sets out the products and services segmentation for 2011/2012.



Clothing and footwear

5.2.2 Clothing purchases are higher for families with their first child. Families with two children or more often recycle clothing for subsequent children in the family. The baby clothing segment is expected to outperform the overall clothing sector in 2011-12. This is largely due to new parents waiting until their 30s to have their first baby and thus being set up financially to spend more. The emergence of baby boutiques is a reflection of this growing trend, with stores and labels targeting fashionable young mums and dads. Designers are also cashing in, with the emergence of baby labels like Gucci Baby and Dior Baby, and labels such as Ralph Lauren, Diesel and Collette Dinnigan have branched out to the baby market.

Food

5.2.3 A large proportion of Australian mothers breastfeed their newborns. By six months of age, approximately 75% of children were no longer exclusively breastfed. However the percentage of fully breastfed children aged between 0 and 6 months remained relatively high. As a result, baby food expenditure is more likely to be for products purchased for children older than six months.

5.2.4 Baby food includes bottled milk and a range of puree food. Commercial baby food and nutritional products have performed well over the past five years. Increasing developments in organic baby food and soy-free, milk-free, gluten-free and egg-free consumables are attributed to increased consumer demand. New parents are among the first demographic segments to flock to organics products. With the continual increase in childhood obesity, juvenile diabetes and food allergies, parents are becoming more aware of healthy eating. Despite the rising trend in organic baby food, analysts estimate the sub-segment represents no more than 5.0% of the food segment.

Nappies

5.2.5 Over the five years through 2009-10, Australia's birth rate increased at an annualised 2.8%. In line with increased births, expenditure on nappies was cemented as the second largest product segment due to their necessity. Non-disposable nappies account for a negligible share of total nappies expenditure, at less than 1.0%. The inconvenience of washing cloth nappies makes the purchase of such products unattractive.

Furniture

5.2.6 Cots, baths, highchairs, bassinets, prams, baby seats, potty seats, changing tables and car restraints are all baby-specific furniture, accounting for less than 10% of the total baby products market. These one-off purchases vary in range, brand, size and features. This product segment has been feeling the tightening of household budgets over the past five years, but is expected to return to growth in 2011-12. Given that babies often grow out of these products quickly, parents tend to invest less in these products during difficult times.

Other merchandise

5.2.7 The other merchandise segment includes a vast array of merchandise such as bibs, blankets, manchester, dummies, toiletries, baby-proof electrical plugs, safety gates and monitors. The increase in awareness of home-safety issues among parents has benefited safety products. Manufacturers have responded by developing innovative products. Baby toiletries have been one of the relatively new groups of baby merchandise to hit the market, becoming somewhat of a staple similar to nappies. Johnson and Johnson has been extremely successful in gaining a strong global presence in both baby wipes and baby bath shampoos.

5.3 Key External Drivers

5.3.1 The key external drivers in the baby products industry are:

a) Number of births

There is a strong positive correlation between the number of births in Australia and the volume of baby products purchased. Over the past four decades, the birth rate has progressively weakened, as an increasing number of women elected to pursue further education and enter the labour force. Changing attitudes have affected family size. Over the past five years however, the average birth rate increased 3.3% per annum which is partly attributable to the Federal Government Baby Bonus and introduction of paid maternity and paternity leave entitlements.

b) Real household disposable income

Changes in real household disposable income are likely to affect the volume and type of baby products demanded. Households with higher spending powers are likely to opt for premium baby goods.

c) Females in the labour force

An increase in the female labour force participation rate is having a positive impact on the baby merchandise market. As more women enter and remain in the workforce, the greater their spending power. Over 2008-09, the size of the female labour force increased 2.2% to 5.17 million. The number of females who were employed increased 1.8% over 2008-09, with 1.0% growth recorded in full-time employment and higher growth of 2.7% for part-time employment. Women employed part-time represent 45% of the total number of employed females.

d) Baby bonus

A booming economy pre GFC crisis coupled with cash incentives for parents of newborns stimulated demand for baby products, with revenue growing robustly in 2006-07 and 2007-08. The baby bonus handout which was introduced as part of the 2002 Federal Budget contributed to this growth, as first-time parents were more inclined to purchase non-essential baby goods. However, it is expected that much of the handouts were spent on other household goods, which dampened the positive effect of the baby bonus on the industry. From 1 July 2010, the amount began to be paid in fortnightly instalments. This development bodes well for the baby products market, as the spending focus will more likely be on the industry's products rather than other goods. From 1 July 2013 the baby bonus will be reduced from $5,000 to $3,000 for any subsequent child.

5.4 Key Success Factors

5.4.1 The key success factors identified for the baby products industry are:

a) **Ability to control stock on hand**
Retailers should ensure that they have a sufficient level of baby merchandise on hand to meet customer needs. This point becomes even more crucial during peak selling seasons.

b) **Having a good technical knowledge of the product**
Sales personnel must be customer orientated and have a broad knowledge of baby merchandise available, including labelling and safe use of products.

c) **Proximity to key markets**
Successful stores are judged by high foot traffic and sales. Those located in key markets like shopping centres, near kindergartens and child-care centres are likely to attract the appropriate type of patronage.

d) **Attractive product presentation**
Baby products should be presented in an attractive and efficient manner. For example, some retailers create in store nurseries, a sales technique used to show a number of products together, including bedding, shelves and changing tables.

e) **Production of premium goods**
High-end baby products have become a popular alternative to lower-price versions of the same product. This has largely been attributed to couples having greater spending power.

f) **Economies of scope**
Retailers should ensure that a comprehensive range of the most popular selling baby merchandise is offered to cater for customers.

5.5 Barriers to Entry

5.5.1 The degree of difficulty faced by a new company considering entering the industry is low, with no retailer expected to account for more than 5% of market share. Retailers are not tied to any stringent regulation, start-up costs for stores are relatively cost effective as most businesses rent rather than purchase the store.

5.5.2 Stores usually include fit outs like shelving, lighting and cash registers. Rising competition places additional pressure on retailers to continually stock trendy baby merchandise. Product differentiation is becoming extremely important, given that baby products can be purchased from department stores like Myer and David Jones at the higher end and Target, Big W and K Mart at the more moderate level.

5.5.3 Further to this, the pre-existence of distribution networks between operators and suppliers may be viewed as a barrier. Existing retailers have built a relationship of trust and loyalty with their suppliers over a period. New retailers will have to compete with established stores that have access to low priced, high quality merchandise.

5.6 Cost Structure

5.6.1 Profit varies between players depending on the type of store in operation and the level of competition within the given product market. The industry's profit margin was lower in 2010-11 than during the peak achieved from 2005-06 to 2007-08. This came as an economic slowdown and overall softness in consumer sentiment created a considerable degree of price substitution by households. Analysts expects that competition among retailers will intensify over 2011-12 as low start-up costs and high returns are likely to encourage an abundance of independent baby boutiques. In effect, this will limit expansion of the bottom line as increased competition forces prices down. This factor will contribute to the more modest revenue growth over the coming five years.

5.6.2 As is typical of retailing industries, stock purchases are the largest expense item. Typically reflective of stock, this high level of purchase expenses reflects the need to stock a store a range of baby merchandise. Products are sourced from a variety of suppliers, including domestic and/or international. Most retailers source products from wholesalers however tight retail conditions and the ever-increasing battle to retain profits over increasing operating costs will ultimately lead the industry to reduce supply chain costs. One notable example will be the initiative to cut out the middleman and purchase merchandise directly from manufacturers.

5.6.3 Given the low level of capital requirements in the industry, labour costs account for the industry's second highest expense. This high level of wage expenses reflects the need to employ sufficient staff that can provide customer service, process sales as well as look after inventory.

5.6.4 Operators in the industry depreciate a variety of assets over time. The cost of depreciation varies between operators depending on their size and the number of assets and type of assets involved. Items that may be depreciated include display shelving and cash registers. Given the reliance on technology especially in product identification, checkout, the rate of depreciation will rely on the need to upgrade and/or replace these systems.

5.7 Industry Outlook

5.7.1 A recovery in world and domestic economies, rising birth rates and a higher female labour participation rate will ensure the continued survival and long-term growth of the Baby Products industry. Expenditure will be particularly boosted by parents' emotional spending on their children. Analysis indicates that the future of the industry to be robust, with industry revenue forecast to grow at an annualised 3.1% over the five years through 2016-17 to reach $5.1 billion. Revenue is expected to increase by 3.5% over 2012-13. Profitability should expand by the end of the five-year period, approaching 8.0% to 10% of industry revenue due to growth in high-end baby lines and baby designer brands.

5.7.2 As the industry reaches saturation levels over the next 10 to 15 years, its emphasis will turn to the infant merchandise market. Newborns to two-year-olds will become a distinct market, separate from their three- and four-year-old siblings. This trend has already taken hold in the United States. Product emphasis will be on entertainment, development and education. Entertainment-based merchandise, mainly toys, provide entertainment and play time, while development products are designed to help with skill development. This is particularly important given that newborns and infants up to the age of two years generally develop rapidly. As such, product development should focus on stimulating and exciting the child. There are two industry-wide expansion strategies: the evolution of baby brands from adult versions, seen by Baby Gucci, Esprit Kids and Cotton on Kids; and the development of new brands specifically for infants. In Australia, growth of the baby products market has largely been attributed to the first strategy. The benefit of this is that a new spin-off store is already recognised by the adult market. The down side is that not every brand will be able to successfully convert adult goods over to baby products. The evolution of infant-only brands like Pumpkin Patch and Baby Bunting is a relatively new concept in Australia, and analysts expects new infant brands to increasingly penetrate the infant market. So far, their existence has been limited and largely international.

6 ASSESSMENT OF THE PROPOSED TRANSACTION FOR NON-ASSOCIATED SHAREHOLDERS

6.1 Basis of Evaluation

6.1.1 In considering whether the proposed transaction is fair and reasonable to the non-associated shareholders we have given regard to the views expressed by ASIC in Regulatory Guide 111 Contents of Expert's Reports ("**RG 111**").

6.1.2 RG111 states that a related party transaction is "fair" if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration provided to the entity.

6.1.3 In the context of the offer by Myer Family Company, the proposed transaction would be "fair" to the non-associated shareholders of Mothercare if the value of the consideration to be received by Mothercare was equal to or greater than the value of the assets to be transferred to Myer Family Company.

6.1.4 The offer would also be considered fair if the value of the shares held in Mothercare by the non-associated shareholders on completion of the proposed transaction is equal to or greater than the value of the shares held in Mothercare if the proposed transaction does not proceed.

6.1.5 An offer is considered to be "reasonable" if it is "fair". However even in circumstances where the offer is not "fair" it may still be considered reasonable after considering other significant factors which justify the acceptance or approval of the offer in the absence of a higher bid. In RG 111 ASIC has identified the following factors which an expert might consider in determining whether an offer is "reasonable";

- the financial situation and solvency of the entity;
- opportunity costs;
- the alternative options available to the entity and the likelihood of those options occurring;
- the entity's bargaining position;
- whether there is selective treatment of any security holder, particularly the related party;
- any special value of the transaction to the purchaser, such as particular technology or other synergies; and
- the liquidity of the market in the entity's securities.

6.2 Valuation Methodologies

6.2.1 RG111 require the expert to consider more than one valuation methodology where possible when evaluating whether or not the proposed transaction is fair. The different methodologies considered in RG 111, and my reasons for adopting or discounting each one, are discussed below;

Methodologies not adopted

Methodology	Reasons
Discounted Cash Flow	Requires the ability to estimate positive future cash flows from the business with reasonable certainty. Mothercare does not currently have a business generating positive cash flows so this methodology cannot be used.
Application of earnings multiple	Requires the ability to estimate future maintainable positive earnings. The current trading results for Mothercare, even on an EBITDA basis, are negative. Therefore this methodology cannot be used.
Quoted price for listed securities	A liquid and active market must exist for this to be a reliable indicator of value. As discussed in paragraph 3.12.8 the securities in Mothercare have only ever been thinly traded and since 1 October 2012 have been subject to a trading halt. Therefore this method cannot be used to estimate the value of Mothercare.
Any recent genuine offers for the sale of the entire business	The directors have advised that the only genuine offer they have received for the sale of the business carried on by Mothercare has been the offer from Myer Family Company which is the subject of the proposed transaction. Therefore this methodology is not available to be used as a comparison.

Methodology Adopted

Methodology	Reasons
The amount that would be available for distribution to security holders on an orderly realisation of assets.	Prima facie this methodology would be suitable to use, but it would require amendment to take into account that the Directors have already decided that if the proposed transaction is not approved that they will place the Company into voluntary administration. So the winding up would not occur in the ordinary course of business but rather in the hands of an administrator.

6.3 Fairness Overview

Value of the Consideration offered by Myer Family Company

6.3.1 The consideration which Myer Family Company is offering with respect to the proposed transaction, for the shares in Skansen KCG Pty. Limited, and the foregiveness of certain intercompany loans is as follows;

- $490,000 cash subject to possible adjustment see section 1.8;
- and with forgiveness to Mothercare for a total consideration of $1 of;
  - (i) 25,001,640 Mandatorily Converting Notes with a face value of $4,500,295.20;
  - (ii) the Secured Note referred to in sections 1.3 and 1.4 with a face value of $500,000; and
  - (iii) $770,000 bridging loan from Myer Family Company.

6.3.2 To arrive at the overall value of the consideration being offered by Myer Family Company it is necessary to value each component of the consideration, as follows;

- Cash of $490,000, will be valued at its face value $490,000

6.3.3 For the balance of the consideration, which is the foregiveness to Mothercare of notes and loans, the fair value of the consideration offered is the fair value that Myer Family Company could reasonably expect to recover from the administrator appointed to Mothercare by the directors, should the proposed transaction not be approved.

6.3.4 For the reasons outlined in Section 3.14, I consider it unlikely that any creditors other than the suppliers whose interests are registered under the PPSA, and ANZ Bank, being the holders of the first ranking security, would receive any payment under the administration or the arrangements which follow the cessation of the administration. Therefore I am of the opinion that the fair market value of the consideration given to Mothercare in the form of the sale back to, or assignment of, the notes and loans is zero.

6.3.5 **The total value of the consideration offered by Myer Family Company for the proposed transaction is therefore $490,000, being the cash component of the consideration which would be received by Mothercare if the proposed transaction is approved.**

Fair Value of the Assets to be acquired by Myer Family Company

6.3.6 The assets which Myer Family Company will acquire from Mothercare, if the proposed transaction is approved by the non-associated shareholders are the shares in Skansen KCG Pty. Limited (and in effect the 2 wholly owned subsidiaries). In addition, Mothercare will foregive certain intercompany loans owing by Skansen KCG Pty. Limited and its subsidiaries to the remaining entities in the Mothercare group.

6.3.7 Starting with the unaudited consolidated balance sheet for the Mothercare Group as at 30 September 2012, I have separated out the assets and liabilities which rest with Skansen KCG Pty. Limited and its controlled entities, Early Learning Centre Limited and Baby on a Budget Pty. Limited, from Mothercare Australia Limited and the 3 dormant subsidiaries which will not be sold as part of the proposed transaction.

6.3.8 The assets and liabilities that would remain with Skansen KCG Pty. Limited and its controlled entities, and which would be transferred to Myer Family Company if the proposed transaction is approved, and based on the values included in the 30 September 2012 management accounts, are set out in the table below;

	Skansen KCG $'000
CURRENT ASSETS	
Cash and cash equivalents	561
Trade and other receivables	697
Inventories	18,673
Other assets	371
Total Current Assets	20,302
NON-CURRENT ASSETS	
Property, plant and equipment (Book Value)	11,207
Intangible assets	6,594
Other assets (DTA)	1,611
Total Non-Current Assets	19,412
TOTAL ASSETS	39,714
CURRENT LIABILITIES	
Trade and other payables	10,010
Trade Finance - MPLC	8,684
Trade Finance - ANZ	4,663
Provisions	2,851
Borrowings - Current	150
Total Current Liabilities	26,358
NON-CURRENT LIABILITIES	
Trade Finance - MPLC	2,170
Provisions	1,840
Borrowings - Non-Current	688
Total Non-Current Liabilities	4,698
TOTAL LIABILITIES	31,056
NET ASSETS	8,658

6.3.9 The net assets which would be acquired by Myer Family Company based on the above pro forma balance sheet would be $8.6 million.

6.3.10 The value at which the assets have been carried is the value as part of a business which is a going concern, particularly stock, property plant & equipment and the intangibles. If the business was not able to continue as a going concern, then the disposal of the individual assets would realise a value considerably lower than book value, particularly in the case of the intangibles which are likely to have no realisable value.

6.3.11 The business conducted by Skansen KCG Pty. Limited and its controlled entities has generated negative earnings and cash flow over recent years. Therefore in its current state it cannot be said to have a value as a going concern to the Myer Family Company.

6.3.12 In order to improve the results of the business which it is to acquire if the proposed transaction is approved, Myer Family Company may be required to incur considerable expenditure in advertising, marketing and other promotional activities.Myer Family Company have advised that they anticipate that significant working capital will need to be introduced by them to fund the ongoing business.

6.3.13 Thus the overall business being acquired by Myer Family Company through the acquisition of the shares in Skansen KCG Pty. Limited would not currently have any value as a going concern.

6.3.14 The fair value of the intangibles being acquired by Myer Family Company as part of the proposed transaction currently is zero. It is also likely that the realisable value of the property, plant & equipment, which largely comprises the retail store fit outs, would be negligible. It is my understanding from my discussions with my Partner who is an insolvency practitioner that it is often not worth the cost of removing such fit out from the stores as the cost to do so exceeds the expected proceeds on sale. For the purpose of this analysis I have assumed that a maximum value of 10% only of book value is recovered for such plant & equipment.

6.3.15 The deferred tax asset relates to the tax deductions which may be available to Skansen KCG Pty. Limited at a future date for timing differences. Unless Skansen KCG Pty. Limited will have taxable income against which these timing differences can be offset at a future time when they become available, there will be no tax benefit to Skansen KCG Pty. Limited. Whilst under the tax consolidation regime, and assuming Myer Family Company is part of a tax consolidated group of which Skansen KCG Pty. Limited would become a group member upon acquisition, it may be possible for such timing differences to be utilised by the head company in the tax consolidated group, there can be no certainty to Myer Family Company at this point in time that any such benefit will actually be realised. Accordingly the fair value of this deferred tax asset to Myer Family Company at the time of acquisition should also be considered to be zero.

6.3.16 After reducing the fair value of the intangibles, property, plant and equipment and the deferred tax asset to zero, the value of the net assets being acquired by Myer Family Company through the acquisition of the shares in Skansen KCG Pty. Limited is a deficiency of $9.6 million as set out in the table below.

	$'000
Net assets per Proforma Balance Sheet	8,658
Less: Fair Value Adjustments	
Intangible Assets	(6,594)
Property, Plant and Equipment (90% x $11.207 million)	(10,086)
Deferred Tax Asset	(1,611)
	(9,633)

6.3.17 As part of the proposed transaction the intercompany loans owing by Skansen KCG Pty. Limited and its subsidiaries to the other entities in the Mothercare group are to be forgiven for no consideration. The total of these loans at the date the Implementation Agreement was signed was $40.42m.

6.3.18 Prima facie this would appear to be a benefit to Myer Family Company as the existing obligation by Skansen KCG Pty. Limited and its subsidiaries to repay the amount owing of $40.42m will be removed.

6.3.19 In order to consider what the value to Myer Family Company of the foregiveness of these loans is it is necessary to consider what the market value of the loans is to Mothercare and its subsidiaries (excluding Skansen KCG Pty. Limited and its subsidiaries) prior to the proposed transaction.

6.3.20 As set out in Section 6.13.6 above, I have formed the opinion that the value of the shares in Skansen KCG Pty. Limited and its subsidiaries that is to be acquired by Myer Family Company if the proposed transaction proceeds is zero, and that the net assets would be negative. This negative value has been arrived at without the liability of Skansen KCG Pty. Limited and its subsidiaries to Mothercare and the remaining entities being taken into account.

6.3.21 I am therefore of the opinion that Skansen KCG Pty. Limited and its subsidiaries had no ability at all to repay any of the intercompany loans from Motherare and the remaining entities prior to the proposed transaction. As the value of these loans would be zero to Mothercare and the remaining entities prior to the proposed transaction, the fact that the loans are to be forgiven as part of the proposed transaction would result in no further loss to Mothercare as they already have zero value.

6.3.22 By extension if the intercompany loans owed by Skansen KCG Pty. Limited and its subsidiaries to Mothercare have zero value, the forgiveness of these loans as part of the proposed transaction does not provide any benefit to Myer Family Company.

6.3.23 In my opinion the forgiveness of the intercompany loans as part of the proposed transaction does not have any value to Myer Family Company.

Overall value of the assets to be acquired by Myer Family Company under Proposed Transaction

6.3.24 Based on my analysis above I consider that the neither of the assets which would be acquired by Myer Family Company if the proposed transaction is approved by the non-associated shareholders, being the shares in Skansen KCG Pty. Limited and the forgiveness of certain intercompany loans, have any value.

Position of non-associated shareholders in Mothercare if proposed transaction does not proceed

6.3.25 An alternative means of considering whether the transaction is "fair" to the non-associated shareholders is to consider the value of their holding of shares in Mothercare now, with the value of the shares in Mothercare if the proposed transaction is approved.

6.3.26 Given that the directors of Mothercare have stated that they will place the company into voluntary administration if the shareholders do not approve the proposed transaction, and the analysis that I have carried out in Section 3.14 and the likely outcome for the shareholders under such an administration, I consider that on balance the shareholders are unlikely to receive any return on their holdings under such a scenario. **So if the proposed transaction is not approved the value of the ordinary shares in Mothercare will be Nil.**

Position of non-associated shareholders in Mothercare if proposed transaction does proceed

6.3.27 As part of the analysis carried out in Section 6.3.16 I have also produced a pro-forma balance sheet for Mothercare Australia Limited and its remaining 4 subsidiaries, as it would appear, assuming that shareholder approval is obtained for the proposed transaction and the other associated transactions, as set out below, are carried out;

- The disposal of the shares in Skansen KCG Pty. Limited and the intercompany loan to Myer Family Company for the sum of $490,000 cash (subject to possible adjustment – see section 1.8);
- The repayment of the remaining debts owing of $140,000;
- The setting aside of the sum of $110,000 for the working capital requirements of the company;
- The sale back to Mothercare of the Mandatorily Converting Notes, Secured Note and Shareholder Loans to Mothercare held by Myer Family Company for the sum of $1.
- The sale back to Mothercare of the Mandatorily Converting Notes and shareholder loans and held by MPLC in Mothercare for the sum of $1.
- The redemption of the outstanding Mandatorily Converting Notes held by the remaining noteholders for the sum of $240,000 in total. I note that these notes are secured and rank ahead of any possible payments to holders of the ordinary shares.

6.3.28 In the following table I have set out how the sum of $240,000 available to be applied in redemption of the Mandatorily Converting Notes has been calculated.

	$
Consideration payable by Myer Family Company	490,000
Repayment of the remaining debts owing	(140,000)
Working capital requirements of the company	(110,000)
Sum available	**240,000**

6.3.29 Following the above adjustments the Proforma Balance Sheet for Mothercare is as follows.

	Mothercare Shell $'000
CURRENT ASSETS	
Cash and cash equivalents	110
Total Current Assets	**110**
NON-CURRENT ASSETS	
Property, plant and equipment (Book Value)	750
Total Non-Current Assets	**750**
TOTAL ASSETS	**860**
NET ASSETS	**860**

6.3.30 The book value of the property, plant & equipment of $750,000 represents its written down value calculated by depreciating the original cost over the estimated useful life as used in the business as a going concern. As there would no longer be any business being carried on by Mothercare these assets would have little value to Mothercare and the resale value as second hand items would be considerably lower than book value.

6.3.31 Thus the only real asset of Mothercare following the proposed transaction will be the remaining cash of $110,000. However either entity maintenance costs, such as listing fees and audit, or the costs of liquidating the company, will soon deplete these cash reserves to zero.

6.3.32 In the Explanatory Memorandum accompanying the Notice of Meeting the directors have stated that, if the proposed transaction is approved, and following completion of the proposed transaction and all associated transactions, they will consider opportunities for the company to be used as a backdoor listing vehicle by another entity seeking to be listed on the ASX, in which case the company's existing shares may obtain a nominal value.

6.3.33 The directors have further stated that if no such opportunity presents itself by the 15th day after completion (completion being the day after the expiry of the period during which Myer Family Company may make a warranty claim under the Implementation Agreement), the company will be placed into a members' voluntary liquidation.

6.3.34 Although the directors have considered the potential additional value to the non-associated shareholders of Mothercare providing a means by which a third party might obtain a backdoor listing this is not a material reason for the directors' recommendation of the Myer Family Company proposal.

6.3.35 **Therefore the value of the shares in Mothercare held by the non-associated shareholders, should the proposed transaction be approved, will be zero.**

6.3.36 The non-associated shareholders will also at this time still hold shares in the Mothercare listed company. As a result of the buyback of the shares held by Myer Family Company and MPLC, the non-associated shareholders will now own a greater proportion of the shares in this company than they did before the proposed transaction.

6.4 Assessment as to Fairness

6.4.1 As set out in section 6.3.2 the fair value of the consideration to be received by the company for the disposal of the assets, if the proposed transaction is approved by the non-associated shareholders, is $490,000 (subject to possible reduction as set out in section 1.8).

6.4.2 In section 6.3.24 I have estimated that the fair value of the assets which would be acquired by Myer Family Company should the proposed transaction be approved, is zero.

6.4.3 Therefore as the fair value of the consideration to be received is greater than the fair value of the assets to be disposed of, I am of the opinion that the proposed transaction is fair to the non-associated shareholders.

6.4.4 In my opinion, and based on the analysis carried out in section 6.3.26, the shares in Mothercare Australia Limited by the non-associated shareholders currently have zero value.

6.4.5 In my opinion, and based on the analysis carried out in section 6.3.35, if the proposed transaction is approved the ordinary shares in Mothercare Australia Limited held by the non-associated shareholders will also have zero value.

6.4.6 As the value of the shares in Mothercare if the approved transaction is approved is the same as if the transaction is not approved, i.e. zero, it is my opinion that the proposed transaction is fair to the non-associated shareholders of Mothercare.

6.5 Reasonableness of the Proposal

6.5.1 RG111 establishes that an offer is reasonable if it is fair. As I have formed the opinion in section 6.4 that the proposed transaction is fair to the non-associated shareholders then it follows that the proposed transaction is also reasonable to the non-associated shareholders.

6.5.2 I have also considered the following factors which may also indicate that the proposed transaction is reasonable to the non-associated shareholders;

Advantages if the Proposed Transaction is Approved

6.5.3 **Advantage 1** –Myer Family Company have stated, through the announcement made to the ASX on 10 October 2012 by Mothercare, that they will continue to build Mothercare into a major player in the Australian and New Zealand market. As such, the majority of the employees may retain their jobs in the various retail outlets and the unsecured creditors may be paid in full in the ordinary course. These are not direct benefits to the shareholders but are factors that they may take into account as being reasonable as they have benefit for the stakeholders in the business including the employees and creditors as well as the economy as a whole.

6.5.4 **Advantage 2** – If the proposed transaction is approved, the company to be re-named Dodo Limited will effectively be a clean shell and whilst it remains listed it may be possible for a suitable business to be introduced into the shell via a back door listing. Whilst the existing non-associated shareholders would likely be diluted considerably should such a transaction occur they would still end up with a small part of something with potential value, rather than a larger part of nothing.

Disadvantages if the Proposed Transaction is Approved

6.5.5 **Disadvantage 1** – If the proposed transaction does not proceed the directors will place the company into voluntary administration. In the unlikely event that the administration results in all employees, secured and unsecured creditors being paid in full (and after allowing for the administrators fees) and with a surplus of cash remaining, this cash would be available to distribute to the non-associated shareholders. However for the reasons outlined in Section 3.14.12 I am the opinion that this is unlikely to be the case. However the disadvantage to the non-associated shareholders is that this will lose this possibility completely of the proposed transaction is approved.

7 CONCLUSION ON THE PROPOSED TRANSACTION

7.1.1 **In my opinion the proposed transaction is fair to the non-associated shareholders for the reasons set out in Section 6.4.**

7.1.2 **As the proposed transaction is fair it is also reasonable to the non-associated shareholders and the other factors which may be considered by the non-associated shareholders in considering whether or not to approve the proposed transaction are set out in Section 6.5.**

Schedule 1: Statement of Financial Position

	31 Dec 2010 Reviewed $'000	30 Jun 2011 Audited $'000	31 Dec 2011 Reviewed $'000	30 Jun 2012 Audited $'000	30 Sep 2012 Management $'000
Current Assets					
Cash at bank and in hand	12,251	3,064	4,553	1,125	561
Trade Receivables	460	34	704	23	697
Provision for impairment of trade receivables		-		-	
Sundry Debtors		249		335	
Finished Goods - at net realisable value	19,990	21,297	21,718	16,115	18,673
Less: Provision for Shrinkage	-	-		(62)	
Derivative financial instruments	-	-	8	-	
Prepayments		405		192	
Deposits		24		55	
Other assets	373		579	-	370
Total Current Assets	33,074	25,073	27,562	17,783	20,301
Non-Current Assets					
Plant and Equipment at Cost	11,012	13,870	13,795	17,790	11,957
Accumulated depreciation		(2,274)		(5,100)	
Intangible Assets			8,681	-	8,595
Customer Database - at cost	395	395		395	
Less: impairment		-		-	
Goodwill on acquisition - at cost	5,971	6,253		6,253	
Less: impairment		-		-	
License and development rights - at cost	3,050	3,050		3,050	
Less: accumulated amortisation	(192)	(268)		(382)	
Less: impairment of Kids Central intangible assets		(693)		(693)	
Deferred Tax Assets	984	1,217	1,567	1,612	1,612
Total Non-Current Assets	21,220	21,550	24,043	22,925	22,164
Total Assets	54,294	46,623	51,605	40,708	42,465
Current Liabilities					
Trade Payables	12,561	14,408	18,344	12,168	10,010
Other Payables		1,307		2,332	8,684
Trade Finance	6,001	6,963	5,758	5,010	4,664
Provisions			2,924		2,851
Employee Benefits	995	887		949	
Other employee provisions		-		200	
Gift vouchers/laybys		929		1,110	
Earn-out	525	525		-	
Customer Loyalty Points	508	273		420	
Provision for Fixed Asset Disposal		150		-	
Deferred Rent Contributions	120	-	-	-	
Landlord contribution		120		445	
Borrowings					
ANZ Bank Loans	144	1,013	150	150	150
Shareholder Loans		3,500		1,540	2,500
Derivative Financial Instruments	931	184	-	-	-
Total Current Liabilities	21,785	30,259	27,176	24,324	28,859
Non-Current Liabilities					
Trade Payables		-	2,143	2,170	2,170
Provisions			2,363		1,840
Provision for make-good (leases)	80	80		-	
Employee benefits	324	434		47	
Deferred Rent Contributions	613				
Landlord contribution		645		1,726	
Borrowings					
ANZ Bank Loans	953	-	788	725	1,847
Total Non-Current Liabilities	1,970	1,159	5,294	4,668	5,857
Total Liabilities	23,755	31,418	32,470	28,992	34,716
Net Assets	30,539	15,205	19,135	11,716	7,749
Equity					
212,920,556 ordinary shares fully paid	57,825	57,825	57,825	57,825	57,825
50,899,654 Mandatory Converting Notes	-	-	7,407	8,820	8,820
Reserves	(2,302)	(2,303)	(2,305)	(2,300)	(2,300)
Accumulated Losses	(24,984)	(40,317)	(43,792)	(52,629)	(56,596)
Total Equity	30,539	15,205	19,135	11,716	7,749

Schedule 2: Statement of Financial Performance

	Year Ended 30 Jun 2011 Audited $'000	Year Ended 30 Jun 2012 Audited $'000	Quarter Ended 30 Sep 2012 Management $'000
Revenue from sales of goods	65,657	79,371	16,748
Cost of sales	(40,475)	(47,361)	(10,090)
Gross Profit	25,182	32,010	6,658
Other Income			
Gain on reversal of earn - out provision	-	525	
FX Gain			12
Sundry income	-	173	126
Landlord contribution	108	-	
Restructure Costs/ Exceptional Items			97
Interest Income	336	24	
	444	722	234
Selling expenses	25,626	32,732	6,892
Employment costs	13,503	13,131	3,305
Rental Charges	11,559	11,961	3,500
Other selling expenses	5,804	5,380	1,043
Distribution expense	659	-	334
Administration expenses			
Employment costs	4,428	5,323	1,039
Rental Charges	136	1,685	29
Other Administration expenses	2,604	1,850	398
Other expenses			
Foreign exchange loss - unrealised	1,995	300	
Disposal of store assets - closed BG stores	1,700	402	
Write off of Kids Central intangible	693	-	
Costs of stock returned to supplier	-	288	
Non-continuing restructure and administration costs	2,017	818	
Depreciation and amortisation expense			
Depreciation - plant & equipment	2,274	2,817	748
Amortisation - licence and development rights	152	114	29
Finance costs			434
Trade Finance Facility	322	473	
Convertible notes	156	332	
Shareholder Loan	19	496	
Bank Loan	98	68	
Other	-	1	
Operating expenses	48,119	45,439	10,859
Loss from continuing operations before income tax and gain on acquisition	(22,493)	(12,707)	(3,967)
Gain on acquisition	596	-	-
Loss from continuing operations before income tax	(21,897)	(12,707)	(3,967)
Income Tax Benefit	594	395	-
Loss from continuing operations after income tax	(21,303)	(12,312)	(3,967)
Profit from discontinued operations	35	-	-
Loss for the year	(21,268)	(12,312)	(3,967)
Other comprehensive income, net of tax			
Exchange differences on translation of foreign operations	25	3	-
Total comprehensive income for the year	(21,243)	(12,309)	(3,967)

Schedule 3: Statement of Cash Flows

Statement of Cash Flows	30 Jun 2011 Audited $'000	30 Jun 2012 Audited $'000
Cash flows from Operating Activities		
Receipts from customers (inclusive of GST)	73,761	88,709
Payments to suppliers and employees (inclusive of GST)	(89,618)	(90,663)
Interest Received	153	24
Other Income Received	-	73
Interest and other Finance costs paid	(335)	(525)
Income tax paid	(178)	-
Net Cash Flows Used in Operating Activities	(16,217)	(2,382)
Cash flows from Investing Activities		
Net cash outflow on business combinations	(4,740)	-
Purchase of property, plant and equipment and intangible assets	(6,138)	(4,575)
Net cash proceeds from sale of business	2,000	-
Net Cash Flows Used in Investing Activities	(8,878)	(4,575)
Cash Flows from Financing Activities		
Net proceeds from convertible note issue	-	5,320
Proceeds from borrowings	3,879	-
Proceeds from borrowings - related parties and shareholders	3,500	1,540
Repayment of borrowings and trade finance	(2,500)	(2,091)
Proceeds from issue of shares	18,724	-
Net Cash Flows Provided by Financing Activities	23,603	4,769
Net Decrease in Cash and Cash Equivalents	(1,492)	(2,188)
Cash and Cash Equivalents at the Beginning of the Year	4,805	3,313
Cash and Cash Equivalents at the End of the Year	3,313	1,125

Appendix 1: Sources of Information

In preparing this report we have relied upon the following principal sources of information:

1. Organisation chart of Mothercare Australia Limited and all controlled entities.

2. Consolidation spreadsheets for Mothercare Australia Limited for the year ended 30 June 2012.

3. Forecast Consolidated Statement of Financial Position, Consolidated Statement of Financial Performance and Consolidated Cashflow Statement for Mothercare Australia Limited for the year ended 30 June 2013.

4. Mothercare Australia Limited September 2012 Financial Statements Report.

5. Prospectus dated 1 September 2011 in regard to the Non-Renounceable Rights Issue by Mothercare Australia Limited.

6. Register of shareholders of Mothercare Australia Limited as at 24 October 2012.

7. Register of Convertible Noteholders of Mothercare Australia Limited as at 24 October 2012.

8. Copy of Secured Facility Agreement between Mothercare Australia Limited, Skansen Pty Limited, A.C.N. 000 950 649 Pty Limited, BK World Online Pty. Limited, Skansen KCG Pty Limited, Baby on a Budget Pty Limited and Australia and New Zealand Banking Group Limited dated 14 December 2010.

9. Annual and Personal Leave report of Skansen KCG Pty Limited as at 25 October 2012.

10. Long Service Leave report of Skansen KCG Pty Limited as at 30 June 2012.

11. Non-Stock related Aged Payables report as at 24 October 2012 for Skansen Pty Limited.

12. Stock related Aged Creditors report as at 22 October 2012 for Skansen Pty Limited.

13. Bank statements for ANZ account 012445-835465201 in the name of Skansen KCG Pty Limited for the period from 2 July 2012 to 25 October 2012.

14. Bank statements for ANZ account 016318-354792893 in the name of Baby on a Budget Pty Limited for the period from 2 July 2012 to 25 October 2012.

15. Bank statements for ANZ account 010194029426100 in the name of Early Learning Centre Limited for the period from 2 July 2012 to 25 October 2012.

16. Inventory listing as at 30 September 2012.

17. Inventory aging report as at 25 September 2012.

18. Goodwill Impairment Test for Mothercare Australia Limited for the financial year ended 30 June 2012.

19. ATO Integrated Client Account for Skansen KCG Pty Ltd for the period from 1 July 2011 to 19 September 2012.

20. ATO Integrated Client Account for Skansen KCG Pty Ltd for the period from 22 June 2010 to 25 October 2012.

21. Summary of issues in relation to the 2011 Income Tax Return for Mothercare Australia Limited.

22. Income Tax Reconciliation and detailed notes in relation to the 2011 Income Tax Return for Mothercare Australia Limited.

23. Tax Consolidation calculations and Consolidated Losses schedules for Mothercare Australia Limited in relation to the 2011 Income Tax Return.

24. Income Tax Reconciliation and detailed notes in relation to the 2011 Income Tax Return for Skansen KCG Pty Limited.

25. Income Tax Reconciliation and detailed notes in relation to the 2011 Income Tax Return for Baby on a Budget Pty Limited.

26. Draft Notice of Annual General Meeting and Explanatory Memorandum to be held on 17 December 2012.

27. Copies of all lease agreements entered into by Skansen KCG Pty Limited.

28. Summary of all lease agreements as at 30 June 2012.

29. Terms Sheet between Mothercare Australia Limited and the Myer Family Company Holdings Pty Limited dated 10 October 2012.

30. Note Charge between the Myer Family Company Holdings Pty Limited and Mothercare Finance Limited.

31. Draft Option Deed between Mothercare Australia Limited and MPLC.

32. IBIS World Baby Products in Australia Industry Report dated June 2012.

33. Store sales for the financial year ended 2012 and 1st Quarter of 2013.

34. Draft Mothercare Australia Limited Notice of Meeting of Noteholders Information Memorandum.

35. Mothercare Australia Limited Proforma Balance Sheet as at 17 December 2012.

36. Implementation Agreement between Skansen Pty Limited, The Myer Family Company Holdings Pty Limited and Mothercare Australia Limited.

37. ASX announcement by Mothercare Australia Limited concerning current and past transactions and changes to substantial shareholders.

PITCHER PARTNERS
NSW CORPORATE PTY LIMITED

Pitcher Partners NSW Corporate Pty Ltd
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19 Martin Place
SYDNEY NSW 2000
Tel: 02 9221 2099
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Financial Services Guide

16 November 2012

What is a Financial Services Guide?

This Financial Services Guide ("FSG") is an important document the purpose of which is to assist you in deciding whether to use any of the general financial product advice provided by Pitcher Partners NSW Corporate Pty Ltd. The us of "we", "us" or "our" is a reference to Pitcher Partners NSW Corporate Pty Ltd as the holder of Australian Financial Services Licence ("AFSL") No. 227719. The contents of this FSG include:

- who we are and how we can be contacted
- what services we are authorised to provide under our AFSL
- how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide.
- details of any potential conflicts of interest
- details of our internal and external dispute resolution systems and how you can access them.

Information about us

We have been engaged by you to give general financial product advice in the form of a report to be provided to you in connection with a financial product to be issued by another party. You are not the party or parties who engaged us to prepare this report. We are not acting for any person other than the party or parties who engaged us. We are required to give you an FSG by law because our report is being provided to you. You may contact us by writing to Level 3, 60 Castlereagh Street, SYDNEY NSW 2000, or by telephone on +61 (02) 9221 2099.

Pitcher Partners NSW Corporate Pty Ltd is ultimately owned by Pitcher Partners NSW Pty Ltd, a provider of accounting, tax, corporate advisory, superannuation, investment advisory and consulting services. Directors of Pitcher Partners Corporate Pty Ltd are directors of Pitcher Partners NSW Pty Limited.

Pitcher Partners NSW Pty Limited is an independent company of Pitcher Partners. As such, neither it nor any of the other independent member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the name "Pitcher Partners", or other related names.

The financial product advice in our report is provided by Pitcher Partners NSW Corporate Pty Ltd and not by Pitcher Partners NSW or its related entities.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, we and the Pitcher Partners NSW Pty Limited (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

What financial services are we licensed to provide?

The AFSL we hold authorises us to provide the following financial services to both retail and wholesale clients:

- to provide general financial advice only in respect to interests in managed investment schemes, excluding investor directed portfolio services, and securities.

Information about the general financial product advice we provide

The financial product advice provided in our report is known as "general advice" because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued by another party, we recommend you obtain and read carefully the relevant Product Disclosure Statement ("PDS") or offer document provided by the issuer of the financial product. The purpose of the PDS is to help you make an informed decision about the acquisition of a financial product. The contents of the PDS will include details such as the risks, benefits and costs of acquiring the particular financial product.

How are we and our employees remunerated?

Our fees are usually determined on an hourly basis; however they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out-of pocket expenses incurred in providing the services.

Fee arrangements are agreed with the party or partied who actually engage us and we confirm our remuneration in a written letter of engagement to the party or parties who actually engage us.

Neither Pitcher Partners NSW Corporate Pty Ltd nor its directors and officers, nor any related bodies corporate or associates and their directors and officers, receives any commissions or other benefits, except for the fees for services rendered to the party or parties who actually engage us. Our fee will be disclosed in the relevant PDS or offer document prepared by the issuer of the financial product it required.

All of our employees receive a salary with some directors also having an equity interest in the company. We do not receive any commissions or other benefits arising directly from services provided to you. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

What should you do if you a complaint?

If you have any concerns regarding our report, you may wish to advise us. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. Please address your complaint in writing to:

The Managing Partner
Pitcher Partners NSW Pty Limited
Level 19, MLC Centre
19 – 29 Martin Place
SYDNEY NSW 2000

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Industry Complaints Service ("FICS"). FICS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted to FICS at:

Financial Industry Complaints Service
Telephone: 1800 335 405
Internet: http://fics.asn.au

The Australian Securities and Investments Commission ("ASIC") regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. Their website contains information on lodging complaints about companies and individual persons and sets out the types of complaints handled by ASIC. You may contact ASIC as follows:

Info line: 1 300 300 630
Email: info@asic.gov.au
Internet: http://www.asic.gov.au/asic/asic.nsf

Mothercare Australia Limited

ABN 26 060 199 082

Lodge your vote:

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
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For all enquiries call:
(within Australia) 1300 850 505
(outside Australia) +61 3 9415 4000

000001 000 MLC
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Proxy Form

For your vote to be effective it must be received by 10.00am (Sydney Time) on Sunday, 16 December 2012.

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions

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

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

Turn over to complete the form →

View your securityholder information, 24 hours a day, 7 days a week:
www.investorcentre.com

☑ **Review your securityholding**
☑ **Update your securityholding**

Your secure access information is:

SRN/HIN: I9999999999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.

I 9999999999 IND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Mothercare Australia Limited hereby appoint

☐ **the Chairman of the Meeting** **OR** ______

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Annual General Meeting of Mothercare Australia Limited to be held at BDO Chartered Accountants, Level 10, 1 Margaret St, Sydney on Monday, 17 December 2012 at 10.00am (Sydney Time) and at any adjournment or postponement of that Meeting.

Chairman authorised to exercise undirected proxies on remuneration related resolutions: Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Item 1 (except where I/we have indicated a different voting intention below) even though Item 1 is connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

Important Note: If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on Item 1 by marking the appropriate box in step 2 below.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
1	Remuneration Report	☐	☐	☐
2	Re-election of Mr Brent Dennison as a Director	☐	☐	☐
3	Approval for the purpose of Listing Rules 10.1 and 11.2	☐	☐	☐
4	Change of Company Name	☐	☐	☐
5	Buy-back of shares held by M F Custodians Ltd	☐	☐	☐
6	Buy-back of shares held by Mothercare Finance Limited	☐	☐	☐

The Chairman of the Meeting intends to vote all available proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ______ Contact Daytime Telephone ______ Date __ / __ / __