



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

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Market Announcement
Security Code: MLC

MOTHERCARE AUSTRALIA LIMITED PROPOSED SALE OF BUSINESS

Mothercare Australia Limited ("MLC" or "the Company") is pleased to announce that it and its wholly owned subsidiary Skansen Pty Ltd ("Skansen") have signed an Implementation Agreement with The Myer Family Company Holdings Pty Ltd ("MFCoH") for MFCoH to acquire the business of MLC for an aggregate consideration comprising each of \$490,000 cash (GST inclusive), \$4,500,295.20, being the face value of mandatorily convertible notes to be forgiven by MFCoH and \$1,270,000, being the face value of bridging loans in MLC to be forgiven by MFCoH ("Proposed Transaction"). The agreement of the Implementation Agreement follows signing of a Term Sheet and the contribution by MFCoH of \$500,000 of working capital announced on 10 October 2012.

MLC's business to be sold to MFCoH comprises marketing and retailing exclusive brands, Kids Central, Early Learning Centre, Baby On A Budget and Mothercare in Australia and New Zealand with parenting and children products.

Under the Implementation Agreement, MFCoH has agreed to purchase the entire share capital in Skansen's wholly owned subsidiary, Skansen KCG Pty Ltd ("Skansen KCG") ("Sale Shares"). Further, certain intercompany loans will be forgiven under the Implementation Agreement. Subject to MLC shareholder approval, MFCoH has also agreed 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 Proposed Transaction and any meeting to approve the backdoor listing of a business in the Company. It is the current opinion of each Director (other than Mr David Shelmerdine, who is affiliated with MFCoH) that the Company should accept the buy-back offer promptly following such meeting.

The Implementation Agreement 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 including the approval of MLC's shareholders of the Proposed Transaction. Completion of the sale will take place 5 business days following satisfaction or waiver of the last condition precedent and is anticipated to occur prior to Christmas 2012.

A summary of the Implementation Agreement is provided in the Annexure to this announcement.

Mothercare PLC has separately agreed with the Company to forgive its mandatorily converting notes and bridging loans in the Company on completion of the Proposed Transaction and, subject to MLC shareholder approval, to offer 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 Proposed Transaction and any meeting to approve the backdoor listing of a business in the Company. It is the current opinion of

each Director that the Company should accept the buy-back offer promptly following such meeting.

Following completion of the Proposed Transaction, it is the Directors' intention to consider opportunities for MLC to be used as a backdoor listing vehicle by another entity seeking to be listed on the ASX. If no reasonable backdoor listing opportunity arises, the Directors intend to place MLC into members' voluntary liquidation.

Shareholder Approval

As Skansen KCG and its subsidiaries, Baby on a Budget Pty Ltd and New Zealand company, Early Learning Centre Limited is the vehicle through which MLC undertakes its day to day operations and as Skansen's shareholding in Skansen KCG comprises MLC's principal asset, the proposed sale along with the forgiveness of certain intercompany loans will constitute the disposal of MLC's main undertaking for the purposes of Listing Rule 11.2. The proposal will also constitute the disposal of a substantial asset to a substantial shareholder for the purposes of Listing Rule 10.1. Accordingly, MLC will seek shareholder approval for the transaction to proceed.

Independent Expert

The Board of MLC has appointed Pitcher Partners NSW Corporate Pty. Limited to prepare an Independent Expert's report on whether the Proposed Transaction is fair and reasonable and in the best interest of MLC shareholders. The Independent Expert's report will be included with the Explanatory Memorandum accompanying the Notice of Shareholders' Meeting.

Noteholder Approval

The Company proposes to distribute the \$490,000 cash component of the consideration for the Proposed Transaction after paying any remaining debts owing by the Company and an allowance for working capital ("Net Proceeds"), to the holders of mandatorily converting notes in the Company ("Notes"). The distribution is to be in full and final settlement of the Notes.

It is a condition precedent of the Proposed Transaction that the holders of the Notes approve amendments to the terms of the Notes and Trust Deed dated 31 August 2011 between the Company, its subsidiaries and Australian Executor Trustees Limited ("Trust Deed") as approved by MFCoH (such approval not to be unreasonably withheld).

Directors' recommendation and voting intentions

The Directors (other than Mr Shelmerdine) recommend that shareholders and noteholders vote in favour of the resolutions required for the Proposed Transaction to proceed. All of the Directors intend to vote in favour of the resolutions in respect of their personal holdings of MLC shares and Notes.

Shareholder and Noteholder information

Shareholders will shortly receive a Notice of Shareholders' Meeting to occur in December 2012 at which approval will be sought for the Proposed Transaction. The Notice of Shareholders' Meeting will include an Explanatory Memorandum to provide shareholders with an assessment of the Proposed Transaction, the Independent Expert's Report and the reasons for the Directors' recommendation.

Noteholders will also shortly receive a Notice of Noteholders' Meeting to occur in December 2012 at which approval will be sought for the amendment of the terms of the Notes and Trust Deed. The Notice of Noteholders' Meeting will include an Information

Memorandum to provide noteholders with an assessment of the proposed amendments and the reasons for the Directors' recommendation.

In the meantime, the Board of MLC will advise the market of material developments in accordance with its disclosure obligations.

MLC shareholders and noteholders should consult with their professional advisers about the impact of the Proposed Transaction on their particular investment objectives.

Continuing Voluntary Suspension

On 3 October 2012 the Company requested, and was granted a voluntary suspension of trading in its securities pending an announcement as to the outcome of negotiations concerning a material transaction.

The Company considers that reinstatement of trading in the Company's securities is likely to be materially prejudicial to the Company's ability to successfully complete the proposed sale of business which is critical to the Company's continued financial viability. This is because otherwise a substantial interest in the Company's securities could be acquired for a small financial outlay, and employed to frustrate the proposed sale. The following additional information is provided in accordance with Listing Rule 17.2:

- the suspension will last until completion of the Proposed Transaction, and may continue thereafter, depending on whether the Company is subsequently placed in members' voluntary winding up;
- subject to the foregoing, the suspension may be lifted following an Announcement to ASX that the Proposed Transaction has been completed; and
- the Company is not aware of any reason why its securities should not continue to be suspended from trading.

For and on behalf of the Board



David James
Company Secretary

ANNEXURE - Summary of the Implementation Agreement

The Company, Skansen and MFCoH have entered into an Implementation Agreement under which MFCoH 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 MFCoH and \$1,270,000, being the face value of the bridging loans in the Company forgiven by MFCoH.

The sale of the Sale Shares to MFCoH 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:

- (a) the Shareholders' approval of Proposed Transaction;
- (b) the approval of the holders of Notes to amend the terms of the Notes and Trust Deed as approved by MFCoH (such approval not to be unreasonably withheld);
- (c) the approval of Australia and New Zealand Banking Group Limited ("ANZ") to the Proposed Transaction 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) 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 MFCoH and releases and discharges of all liabilities (actual and contingent) incurred in connection with Skansen and Skansen KCG (other than 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 MFCoH 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 MFCoH and the ownership and possession of the Sale Shares by MFCoH, and the assets of Skansen KCG and its subsidiaries (each a "Group Company"), subsequent to Completion, which MFCoH reasonably considers are necessary or desirable and each of which is unconditional or subject only to conditions reasonably acceptable to MFCoH;
- (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 various intercompany loans), and reasonable evidence of such discharge to MFCoH's reasonable satisfaction is provided to MFCoH;
- (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 MFCoH. 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 Proposed Transaction 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 Shareholders' Meeting will be satisfied. An announcement will be made to the ASX and before the consideration of the relevant approval resolution at the Shareholders' 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.

Additionally, 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, MFCoH must also procure M F Custodians Ltd to offer to sell to the Company all of its Shares in the Company for the aggregate amount of \$1.00 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 2001* (Cth)).

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 MFCoH on or prior to the Condition Date or any condition has become incapable of satisfaction and has not been waived;
- if MFCoH becomes aware of breaches of warranty which would give rise to a claim of \$100,000 or more in aggregate 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.

MFCoH 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.