

Mothercare Australia Limited
Financial Report 2012

mothercare

the world's leading
mother & baby store

For personal



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Mothercare Australia Limited and Controlled Entities

CHAIRMAN'S REPORT

On behalf of the Board, I present this year's Financial Report.

The Board of Mothercare Australia announced an after-tax loss for the full year of \$12.3m.

In summary:

- Total revenue from continuing operations increased by 21% to \$79.4m 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.
- EBITDA loss of \$8.4m including non-recurring items of \$1.8m.
- Depreciation and amortisation of \$2.9m.
- Underlying loss before tax of \$10.9m.
- Basic EPS of (5.8) cents.
- Net cash flows from operations of (\$2.4m), down from (\$16.2m) in the previous financial year.
- The Group had net cash of \$1.1m at the end of June 2012.

Items beyond normal trading, which contributed to the loss were:

- Restructuring and redundancy costs of \$0.8m.
- An unrealised foreign exchange loss of \$0.3m.
- Costs of \$0.3m arising from the return of stock to suppliers.
- A fixed asset write down of \$0.4m associated with store closures arising out of the integration process.

Operational highlights

While the company is making progress towards achieving its objective of becoming a unique parenting and baby retailer in Australia, the following factors impacted full year results:

Lower revenue versus forecast

The Australian retail market remained difficult in terms of weak consumer demand and consequently price-based competition escalated. Following a satisfactory first six months, market conditions became progressively more challenging in the second half of the year. This was, at times, exacerbated by issues with stock availability. It was encouraging, however, that the comparative sales of large format Mothercare stores grew by 9.3% and Mothercare online sales increased by 43%.

Gross margin improvement

The Company's gross margin improved by 1.9%, due to lower levels of clearance activity, better sales mix and some improvement in trading terms. While there was reduced level of clearance activity arising from acquisition and conversions, the tough retail environment led to deeper and more frequent promotional activity across all formats and categories.

Sales mix

We continued to increase the proportion of proprietary branded products.

Store Conversion and rationalisation

During the year nearly 2,000m² of retail space was converted to Mothercare stores and six unprofitable stores were closed.

Outlook and Capital Raising

Trading in the three months since 30 June 2012 has been marginally behind the Group's budget, as the anticipated on-going pressure on both sales and margin persist. The relative improvement in the like-for-like performance of the Toy & Gift category has been encouraging as we prepare for the critical Christmas period. In the second half of the financial year, we are expecting an improvement in sales driven by better stock availability in own-brand product, and from the launch of an upgraded online platform.

The Group's focus remains on raising the trading performance of its existing footprint, gaining further efficiencies in operating costs, and sustaining significant growth in online sales. It will be necessary for the Group to raise additional capital to maintain its operations in the current financial year and enable it to continue to pursue its corporate objectives. To this end, the Board continues in earnest to evaluate and negotiate strategic options, including potential transactions and equity raisings from existing shareholders and third parties. Given both the retail and capital markets in which we are operating, and the performance of the Group to date, any transaction or equity raising is likely to be at a substantial discount to market with stringent conditions, and have a significant dilutionary impact on existing shareholder value.

The Board of Directors of Mothercare Australia wishes to acknowledge the on-going support of its staff, suppliers, bankers and shareholders.



Robert Gavshon
Chairman

30 September 2012

Mothercare Australia Limited and Controlled Entities

DIRECTORS' REPORT

Your directors submit their report on the consolidated entity ('the Group') consisting of Mothercare Australia Limited and the entities it controlled at the end of, or during, the year ended 30 June 2012.

DIRECTORS

The names of the directors of Mothercare Australia Limited ('the Company') in office during the year and until the date of this report unless otherwise stated are:

Robert Gavshon (Non-Executive Chairman)

Robert Gavshon was appointed to the Board on 1 December 2010. Robert is also a member of the Audit Committee and the Remuneration Committee.

Robert Gavshon came from South Africa 33 years ago, where he was a partner in one of that country's leading law firms. In Sydney, he began his career as Group General Counsel and Director of Corporate Affairs for a multi-national corporation.

Subsequently, Robert became a significant shareholder in, and served as a director of a number of companies including Deputy Chairman of Barbeques Galore, a NASDAQ listed company until its sale to a leading Australian private equity group. He also served as a non-executive Director and a founder of Rebel Sport, the largest sporting goods retailer in Australia and New Zealand and Chairman of Oporto and Think: Education, until their sales. He is currently Chairman of SOLA Sport, Open Colleges Australia, Vitekhnologies and Mothercare Australia and is a Director of a number of other investee companies.

Robert has extensive community involvement, occupying leading positions in Australian not-for-profit organisations.

Directorship of public listed companies for the past three years: Nil

Brent Dennison (Non-Executive Director)

Brent Dennison was appointed to the Board on 21 July 2008. Brent returned to Australia after working in the European private equity industry for 6 years. Immediately prior to returning, Brent executed and managed a successful buy-and-build investment in Italy in conjunction with the Dutch fund, Favonius Ventures. Before working with Favonius, Brent was a director with Citigroup in NY evaluating small to medium sized financial services investment opportunities of strategic interest to the bank. Prior to Citigroup, Brent led two entrepreneurial ventures, a UK-based software business that was sold to a German ERP player, and the launch of Turkey's first management consulting practise in the mid-1990s. Before embarking on his entrepreneurial pursuits, Brent was a strategy consultant with the Boston Consulting Group in Melbourne and New York. Brent stepped down from the role of Managing Director on 29 June 2012, but will continue as a Non-Executive Director.

Directorship of public listed companies for the past three years: Nil

Jerry Cull (Non-Executive Director)

Jerry Cull was appointed to the Board on 30 September 2010. Jerry is also a member of the Remuneration Committee.

Jerry is currently the Group International Director of Mothercare PLC. He has over 30 years' experience working within the Mothercare Group. Jerry was previously within the UK Mothercare business before moving to the international division. Since that time, he has led the growth of Mothercare internationally to a 950 store portfolio in 54 countries with annual retail sales in excess of \$1 billion (AUD).

Directorship of public listed companies for the past three years: Nil

David Shelmerdine (Non-Executive Director)

David Shelmerdine was appointed to the Board on 30 November 2010. David is also a member of the Audit Committee.

Mr Shelmerdine is a director of The Gold Standard Foundation and past Deputy Chairman of The Myer Family Company Holdings Pty Ltd, a member of its Investment Committee, Remuneration and Nominations Committee and Chairman of the Audit and Governance Committee.

In addition, David is a founding director and Deputy Chairman of ClimateWorks Australia, and is Convenor of the Sustainability and the Environment Funding Program for the Sidney Myer Fund and The Myer Foundation. He has been involved in several significant philanthropic initiatives with the Foundation and the Fund over the past ten years.

He is Managing Director of Laradoc Pty Ltd, a privately owned agribusiness company with interests in the pastoral, livestock and viticulture sectors. David has a Graduate Diploma in Agriculture from Adelaide University Roseworthy College in South Australia and has been directly involved in the management and strategic direction of a number of privately owned agribusiness companies.

Directorship of public listed companies for the past three years: Nil

Chester Moynihan (Non-Executive Director)

Chester Moynihan was appointed to the Board on 30th November 2010. Chester is also the Chairman of the Audit Committee.

Chester is Managing Director and co-founder of Allegro Funds, a specialist Australian-based funds manager. Chester has over 20 years of experience in private equity investing, corporate advisory and executive management.

Chester is a Chartered Accountant and has the following additional qualifications, Investment Management Certificate and Advanced Insolvency Law and Practice.

Directorship of public listed companies for the past three years: Nil

Mothercare Australia Limited and Controlled Entities

DIRECTORS' REPORT

DIRECTORS (continued)

Ross Bartlett (Executive Director)

Ross Bartlett was appointed to the Board on 1st September 2009 and resigned on 30 November 2011.

Ross has over 30 years' experience in retail, marketing, brand management and product development. Over that period, Ross held many senior management roles at Coles Myer including General Manager of Merchandising & Marketing for Kmart Australasia. He has experience in Strategic Planning and Buying-Brand management including the development of exciting new brands and unique products, long term development of retail formats and their market positioning.

Directorship of public listed companies for the past three years: Nil

Mike Lewis (Non-Executive Director)

Mike Lewis was appointed to the Board on 30 September 2010 and resigned on 30 November 2011.

Mike Lewis established OshKosh B'Gosh in Australia in 1987. He was also responsible for the development of OshKosh's Asia / Pacific business based in Hong Kong, and the set-up of their sourcing office servicing the Asia/Pacific markets. Post the success of the Asia initiative, Mike was appointed from 1996 until 2000 to drive the growth of the OshKosh brand in the UK and Europe. Upon his return to Australia, Mike negotiated the Australian / NZ rights for the Early Learning Centre (ELC), and developed the ELC business in conjunction with the Kids Central retail concept. In 2007, Mike negotiated the Mothercare rights for Australia. Mike then joined with Headline Group (now Mothercare Australia) to undertake the Mothercare launch and rollout.

Mike has a BEc degree from Sydney University and is a qualified accountant.

Directorship of public listed companies for the past three years: Nil

COMPANY SECRETARY

Robert de Lorenzo

Robert de Lorenzo was appointed Company Secretary and Chief Financial Officer on 1 December 2010, and resigned on 11 October 2011. Robert is a CPA and his qualifications include a Bachelor of Business and a MBA. Robert has a number of years of financial and commercial experience across international and locally listed companies, including the most recent roles at Westpac Banking Corporation, and Hutchison Telecommunications.

Brent Dennison

Brent Dennison was appointed Company Secretary on 11 October 2011 and resigned as Company Secretary on 14 November 2011.

Ciaron Murphy

Ciaron Murphy was appointed Company Secretary and Chief Financial Officer on 14 November, 2011 and resigned on 6 February 2012.

David James

David James was appointed Company Secretary and Chief Financial Officer on 6 February 2012. David is a CA and has over 20 years of senior financial and commercial experience, predominantly in the retail sector for companies including Barbeques Galore, HMV, Inchcape Australia and Deals Direct.

Mothercare Australia Limited and Controlled Entities

DIRECTORS' REPORT

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of the Company were:

	Ordinary shares fully paid	Options over ordinary shares
Brent Dennison	11,779,374	-

CORPORATE STRUCTURE

Mothercare Australia Limited (ACN 060 199 082) is a company limited by shares that is incorporated and domiciled in Australia. Mothercare Australia Limited has prepared consolidated financial statements incorporating the entities that it controlled during the financial year. All subsidiaries are 100% owned and domiciled in Australia except where indicated.

Mothercare Australia Limited

Skansen Pty Limited

Baby on a Budget Pty Limited

A.C.N. 000 950 649 Pty Limited (formerly Reko Pty Limited)

DoDo Holdings Pty Limited

BK World Online Pty Limited

Skansen Giftware (UK) Limited (domiciled in the United Kingdom)

Skansen KCG Pty Limited

REGISTERED OFFICE

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

NATURE OF OPERATION AND PRINCIPAL ACTIVITIES

The principal activities during the year within the Group was the sale of educational toys, parenting and children's products and mother and child fashion.

The Group is focused on marketing and retailing exclusive brands to the Australian parenting and children's market segment. The Group is continuing an exciting growth phase with the roll-out of Mothercare in Australia and New Zealand.

DIVIDENDS

No dividends have been declared or paid during or since the end of the financial year (2011: Nil).

Mothercare Australia Limited and Controlled Entities

DIRECTORS' REPORT

REVIEW OF OPERATIONS

For the year ended 30 June 2012, the Group incurred a net loss before tax of \$12.7 million (2011: loss \$21.9 million) and a net comprehensive loss after tax of \$12.3 million (2011: loss \$21.3 million).

The major 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

SHAREHOLDER RETURNS

The figures in the table are not all sourced from audited accounts as they reflect a combination of audited and internal management information. Accordingly the figures should only be used as a guide to trends to business performance.

	2012	2011	2010	2009	6-Month Year *
Revenues from ordinary activities (\$'000)	79,371	65,657	31,081	11,588	5,966
Return on sales (EBITDA)/Revenue	(10.6)%	(29.9)%	(10.0)%	(14.5)%	(17.4)%
NTA (cents per share)	0.7	3.1	4.5	11.7	13.0
Basic EPS (cents per share) attributable to members	(5.8)	(11.1)	(2.7)	(1.3)	(0.9)
Dividends paid during the year (cents per share)	-	-	-	-	-
Closing share price (cents per share)	8.0	20.5	28.0	12.0	15.5
Shares on issue ('000)	212,921	212,921	119,690	119,690	119,690

* In 2008 reporting year end moved to 30 June. Prior to 2008 reporting year end was 31 December.

COMPANY PERFORMANCE

The above table shows the performance of the Group over the last five periods.

REVIEW OF FINANCIAL CONDITION

Capital Structure

No new shares were issued in 2012 (2011: 93.2m). No shares were issued under the Dividend Reinvestment Plan following the suspension of the plan on 28 March 2006. The plan remains suspended until further notice.

Cash from Operations

Net cash flows used in operating activities for the year ended 30 June 2012 was (\$2.4) million as compared to (\$16.2) million for the year ended 30 June 2011.

Liquidity and Funding

The Group has funding facilities as at 30 June 2012 as shown in note 9 to the financial statements.

Cash on hand as at 30 June 2012 was \$1.1 million (2011: \$3.3 million).

Mothercare Australia Limited and Controlled Entities

DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the State of Affairs during the financial year concluding on 30 June 2012.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

In the opinion of the Directors, it would prejudice the interests of the Group to include additional information, except as reported in this Directors report and the annual report, which related to likely developments in the operations of the group and the expected results of those operations in financial periods subsequent to 30 June 2012.

EVENTS SUBSEQUENT TO REPORTING DATE

In July 2012, Mothercare plc extended its bridging loan agreement by \$0.96m to \$1.73m. It has been agreed that this loan will be capitalised as part of a future equity issue.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group complies with all environmental regulations.

SHARE OPTIONS AND SHAREHOLDINGS

During the year, no options were granted to executives or employees (2011: Nil).
Refer to note 26 for shareholdings and option holdings of directors and key management personnel.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the Group has paid premiums in respect of a contract insuring all of the directors and certain officers of Mothercare Australia Limited against costs incurred in defending proceedings for conduct involving:

- (a) a wilful breach of duty; or
- (b) a contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

The Group is bound by a confidentiality clause in its insurance policy not to disclose the insurance contract premiums.

Mothercare Australia Limited and Controlled Entities

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for directors and executives of the Company and the Group.

A) PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

Remuneration Philosophy

The performance of the Group depends upon the quality of its directors and executives. To prosper, the Group must attract, motivate and retain highly skilled directors and executives.

To this end, the Group embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives;
- Establish appropriate performance hurdles in relation to variable executive remuneration; and
- A portion of executive remuneration "at risk" dependent upon meeting pre-determined performance benchmarks.

Responsibility

The Board is responsible for determining and reviewing compensation arrangements for the directors, the managing director and the executive team. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

To assist in achieving these objectives, the Board links the nature and amount of executive directors' and officers' emoluments to the Company's financial performance.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and senior management remuneration is separate and distinct.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Group with the ability to attract and retain directors of a high calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The constitution of the Company and the ASX Listing Rules specify that the aggregate of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 29 July 2002 when shareholders approved an aggregate remuneration of \$250,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers, when needed, advice from external consultants as well as fees paid to non-executive directors of comparable companies when undertaking the annual review process.

This review process does not necessarily mean a fee increase is sought from the next annual general meeting. Each director receives a fee for being a director of the Company. No additional fee is paid for sitting on a board committee. However a director may, at the request from the Board, undertake additional consulting work, which will be invoiced in addition to normal director's fees. Non-executive directors do not receive performance related remuneration.

Executive Director Remuneration

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- Reward executives for the Group, business unit and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

Structure

Remuneration consists of the two key elements:

- Fixed remuneration; and
- Variable remuneration.

The proportion of fixed and variable remuneration is established by the Board.

Mothercare Australia Limited and Controlled Entities

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

Fixed Remuneration

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Board and the process involves a review of business unit and individual performance and relevant competitive remuneration in the market.

Structure

Key management personnel are given the opportunity to receive their fixed remuneration in a variety of forms including cash, car allowance and fringe benefits such as a motor vehicle. It is intended that the manner of payment chosen will be optimal for the recipient without undue cost for the Company.

Variable Remuneration

Objective

The objective of the variable remuneration is to link the achievements of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The main target is the achievement of the business unit's profit budget. The total potential variable remuneration available is set so as to provide sufficient incentive to the key management personnel to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Details of the nature and amount of each element of the emolument of each director of the Group and each of the key management personnel of the Group are as follows:

B) DETAILS OF REMUNERATION

Details of directors and other key management personnel:

(i) Directors

R Gavshon	Non-executive Chairman (appointed 1 December 2010)
B Dennison	Non-executive Director (Managing Director up to 30 June 2012)
J Cull	Non-executive Director (appointed 30 September 2010)
D Shelmerdine	Non-executive Director (appointed 30 November 2010)
C Moynihan	Non-executive Director (appointed 30 November 2010)
M Lewis	Non-executive Director (resigned 30 November 2011)
R Bartlett	Non-executive Director (resigned 30 November 2011)

(ii) Other key management personnel

R de Lorenzo	Company Secretary/CFO (resigned 11 October 2011)
C Murphy	Company Secretary/CFO (appointed 14 November 2011, resigned 17 February 2012)
D James	Company Secretary /CFO (appointed 6 February 2012)
J Gavshon	Interim General Manager (on secondment, appointed 2 July 2012)

The terms "director" and "officer" have been treated as mutually exclusive for the purposes of this disclosure. The elements of emoluments have been determined on the basis of the cost to the Group; and

Key management personnel are those directly accountable and responsible for the operational management and strategic direction of the Group. In the directors' view, other senior personnel do not fall into the definition above.

Mothercare Australia Limited and Controlled Entities

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

Details of the remuneration of the Directors, the key management personnel of the Group (as defined in AASB 124 Related Party Disclosure) and specified executives are set out in the following table.

Directors		Short term				Post	Non	Total
		Salary & fees	Cash bonus	Car Allowance	Termination Benefits	Employment Super-annuation	Monetary Motor Vehicle	
		\$	\$	\$	\$	\$	\$	
R Gavshon	2012	80,000	-	-	-	7,200	-	87,200
	2011	45,538	-	-	-	4,098	-	49,636
B Dennison	2012	290,649	-	-	21,962	25,020	-	337,631
	2011	337,179	50,000	-	-	34,846	-	422,025
R Bartlett (resigned Nov 2011)	2012	-	-	-	-	-	-	-
	2011	76,250	-	-	-	-	-	76,250
M Lewis (resigned Nov 2011)	2012	-	-	-	-	-	-	-
	2011	196,431	-	-	137,500	4,725	-	338,656
G Elkington (resigned Nov 2010)	2012	-	-	-	-	-	-	-
	2011	167,368	-	14,583	175,000	15,063	-	372,014
G Choo (resigned Nov 2010)	2012	-	-	-	-	-	-	-
	2011	87,616	-	7,000	80,000	3,510	-	178,126
J Cull	2012	-	-	-	-	-	-	-
	2011	-	-	-	-	-	-	-
C Moynihan	2012	-	-	-	-	-	-	-
	2011	-	-	-	-	-	-	-
D Shelmerdine	2012	-	-	-	-	-	-	-
	2011	-	-	-	-	-	-	-
Sub-totals - Directors	2012	370,649	-	-	21,962	32,220	-	424,831
	2011	910,382	50,000	21,583	392,500	62,242	-	1,436,707
Other key management personnel								
R De Lorenzo CFO (resigned Oct 2011)	2012	101,681	-	-	38,572	9,151	-	149,404
	2011	201,461	-	13,103	-	27,393	-	241,957
C Murphy (appointed Nov 2011) (resigned Feb 2012)	2012	52,399	-	-	-	4,716	-	57,115
	2011	-	-	-	-	-	-	-
D James CFO (appointed Feb 2012)	2012	78,846	-	-	-	7,096	-	85,942
	2011	-	-	-	-	-	-	-
Grand Totals	2012	603,575	-	-	60,534	53,183	-	717,292
	2011	1,111,843	50,000	34,686	392,500	89,635	-	1,678,664

Mothercare Australia Limited and Controlled Entities

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (continued)

- No share based payments were made during the year and the previous reporting period.
- Percentage of remuneration related to performance and share options during the year is Nil.

C) EMPLOYMENT CONTRACTS

Mr Robert Gavshon, Chairman

- Duration of contract aligned to holding position as Chairman
- Base salary excluding superannuation is \$80,000 per annum and it is to be reviewed by the Board on an annual basis.
- Long term incentive scheme to be approved by shareholders at AGM. In the event the incentive scheme is not approved, an additional \$80,000 to be paid.
- Remuneration is not linked to any performance indicators.

The only other current contract in relation to Key Management Personnel relates to Mr David James, Chief Financial Officer. This contract stipulates a base salary of \$205,000 plus statutory superannuation with a potential maximum bonus equal to 30% of the base salary (potential bonus effective from 1 August 2012). Mr James' contract is effective from 6 February 2012 for an undefined period and includes a two month notice period.

D) OPTIONS GRANTED AS PART OF REMUNERATION

There were no options granted for the year ended 30 June 2012 (2011: nil).

E) ADDITIONAL INFORMATION

Whilst remuneration for key management personnel is not directly linked to the Group's performance, personnel may be rewarded by way of year-end bonuses or/and increases in remuneration. Details of the Group's performance during the last five years are tabled below.

	2012	2011	2010	2009	6-Month Year 2008
Revenues from ordinary activities (\$'000)	79,371	65,657	31,081	11,588	5,966
NTA (cents per share)	0.7	3.1	4.5	11.7	13.0
Basic EPS (cents per share) attributable to members	(5.8)	(11.1)	(2.7)	(1.3)	(0.9)
Dividends paid during the year (cents per share)	-	-	-	-	-
Closing share price (cents per share)	8.0	20.5	28.0	12.0	15.5
Shares on issue ('000)	212,921	212,921	119,690	119,690	119,690

This concludes the remuneration report, which has been audited.

DIRECTORS' MEETINGS

During the year, six directors' meetings and two audit committee meeting was held. The number of meetings at which directors were in attendance is as follows:

	Meeting of Directors		Audit Committee	
	No. held while in office	Meetings attended	No. held while in office	Meetings attended
R Gavshon	6	6	2	2
B Dennison	6	6	-	-
R Bartlett	3	3	-	-
M Lewis	3	3	-	-
J Cull	6	6	-	-
C Moynihan	6	5	2	2
D Shelmerdine	6	6	2	2

As at the date of this report, the Company has an Audit Committee. The members of the Audit Committee are Mr C Moynihan (Chairman), Mr R Gavshon and Mr D Shelmerdine.

Mothercare Australia Limited and Controlled Entities

DIRECTORS' REPORT

ROUNDING

The amounts contained in this report and in the financial statements have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

AUDITOR INDEPENDENCE

The auditor's independence declaration for the year ended 30 June 2012 has been received and can be found on page 13 of this report.

AUDITOR

BDO East Coast Partnership ("BDO", formerly known as PKF East Coast Practice) continues in office in accordance with section 327 of the Corporations Act 2001.

NON-AUDIT SERVICES

Non-audit services were provided by the entity's auditor BDO. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. BDO received or are due to receive the following amounts for the provision of non-audit services.

- other assurance services provided \$20,750 (2011: \$13,500)

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Mothercare Australia Limited support and have adhered to the principles of corporate governance. The Company's corporate governance statement is detailed in the financial report.

Signed in accordance with a resolution of the directors.



Robert Gavshon
Chairman

30 September 2012
Sydney

DECLARATION OF INDEPENDENCE BY JOHN BRESOLIN TO THE DIRECTORS OF MOTHERCARE AUSTRALIA LIMITED

As lead auditor of Mothercare Australia Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect Mothercare Australia Limited and the entities it controlled during the year.



John Bresolin

Partner

BDO East Coast Partnership

Sydney, 30 September 2012

Mothercare Australia Limited and Controlled Entities

CORPORATE GOVERNANCE STATEMENT

The Board of Directors ('the Board') of Mothercare Australia Limited ('the Company') are responsible for the corporate governance practices of the Group. Mothercare Australia Limited and its controlled entities are referred to as 'the Group'. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board supports the core principles developed by the Australian Securities Exchange ("ASX") Corporate Governance Council ("the Council") as a basis for enhancing the credibility and transparency of our capital markets. The structures, policies and procedures already in place have been developed and implemented by the Board and management over many years to ensure the Company continues to operate on those principles.

The Board believes that the Group's Corporate Governance policies should be tailored to account for the size and structure of the Group, risks associated with the Group's operations and the Group's inherent strengths and weaknesses. The ASX concurs with this view and allows companies to explain deviations from the ASX Corporate Governance Council's recommendations.

Areas where the Group has deviated from the Council's recommendations are discussed below, but the Board believes the areas of non-conformance do not impact on the Group's ability to operate with the highest standards of Corporate Governance.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1: Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

The Board is responsible to shareholders for the Group's overall corporate governance practices, and is responsible for the direction and oversight of the Group's businesses on behalf of the shareholders.

The Board's responsibilities include:

- reviewing and determining the Group's strategic direction and operational policies;
- establishing goals for management and monitoring the achievement of these goals;
- reviewing and approving the Group's business plan;
- appointing and remunerating the Managing Director;
- approving all significant business transactions including acquisitions, divestments and property developments;
- monitoring business risk exposures and risk management systems;
- approving and monitoring financial and other external reporting;
- approving changes to the Group's capital structure;
- reporting to shareholders; and
- promoting ethical conduct.

The Board delegates responsibility for the formulation of strategy and administration of day-to-day business to the Managing Director and Chief Financial Officer who comprise the Company's senior management group.

The senior management group is responsible for:

- ensuring business development and other activities are conducted in accordance with the Group's overall business strategy;
- managing the Group's property developments, businesses and other investments to maximise returns to shareholders;
- informing the Board on a regular basis of the status of all projects and the performance of all Group's assets;
- managing relationships with investors and analysts;
- approving capital expenditure and business transactions within predetermined limits set by the Board;
- planning in accordance with the financial control guidelines which govern the allocation and management of financial resources throughout the Group;
- ensuring that appropriate financial reporting is provided to the Board on a monthly, six monthly and annual basis; and
- establishing and monitoring the Group's risk management framework to ensure that policies, guidelines and controls are effective in reducing the Group's operational and financial exposures to an acceptable level.

Recommendation 1.2 Disclose the process for evaluating the performance of senior executives.

Senior management's performance is assessed regularly against both qualitative and quantitative factors at board meetings.

There have been no departures from Principle 1 during the year ended 30 June 2012.

Mothercare Australia Limited and Controlled Entities

CORPORATE GOVERNANCE STATEMENT

Principle 2: Structure the board to add value

The Board comprises the Non-Executive Chairman, Managing Director and three Non-Executive Directors. The size and composition of the Board is formulated to provide an appropriate range of experience, skills, knowledge and perspective to enable it to appoint, guide and supervise a high standard of management for the Group's business. The names, skills, experience and expertise of each Director of the Company are set out in the Annual Report and on the Company's website.

Recommendation 2.1: A majority of the Board should be independent directors.

Directors of Mothercare Australia are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their independent judgement. In the context of director independence, “materiality” is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. The Board considers an item to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the ability of the director in question to shape the direction of the Company's loyalty.

In accordance with this definition of independence, none of the current directors are independent directors by virtue of their substantial shareholdings in Mothercare Australia as detailed in the Annual Report or by their management role. The Board does not comprise a majority of independent directors and consequently its composition does not comply with Recommendation 2.1 of the ASX Corporate Governance Guidelines. This departure arises from the size and nature of operations of the Group.

However, the Board has adopted the following measures to ensure that independent judgment is achieved and maintained in respect of its decision-making processes:

- Directors are entitled to seek independent professional advice at the Company's expense, subject to the approval of the Board;
- Directors having a conflict of interest in relation to a particular item of business must absent themselves from the board meeting before commencement of discussion on the topic; and
- Non-executive directors confer on a needs basis without management in attendance.

Each director brings a range of complementary skills and experience to the Group as indicated in the Annual Report.

Recommendation 2.2: The Chairperson should be an independent Director.

The Company's Chairman is Mr Robert Gavshon.

Recommendation 2.3: The roles of Chairperson and Chief Executive Officer should not be exercised by the same individual.

The Chairman is Mr Robert Gavshon and the Chief Executive Officer is Mr Brent Dennison (until 29 June 2012), therefore as required under best practice, there is a separation of these two roles. Mr Jonathan Gavshon has been appointed to the role of Interim General Manager (on secondment) from 2 July 2012.

Recommendation 2.4: The Board should establish a Nomination Committee.

Due to the size and structure of the Company's Board, a Nominations Committee has not been established as required under ASX Recommendation 2.4. All directors may make recommendations to the Board regarding the membership of the Board, including proposed new appointments. However, all directors must agree unanimously on any new director appointments. In addition, the Company's Constitution provides that at each annual general meeting, one third of directors shall retire (and be eligible for re-election).

The Board believes that these alternative procedures are more than adequate to preserve the integrity of the Board.

Recommendation 2.5: Disclose the process for evaluating the performance of the Board, its committees and individual directors.

Due to the size and nature of the Group, the Board believes that external formal evaluation is not necessary as performance is continually being evaluated on an ongoing basis. This is therefore a departure from Recommendation 2.5.

Mothercare Australia Limited and Controlled Entities

CORPORATE GOVERNANCE STATEMENT

Principle 3: Promote ethical and responsible decision making

Recommendation 3.1: Companies should establish a code of conduct and disclose the code.

The Board encourages the highest standards of ethical conduct by all directors and employees of the Group. The Board has adopted a Code of Conduct & Ethics that sets out the principles and standards with which all Group's officers and employees are expected to comply in the performance of their respective functions. Officers and employees are expected to:

- comply with the law;
- act honestly and with integrity;
- reduce the opportunity for situations to arise which result in divided loyalties or conflicts of interest;
- use the Group's assets responsibly and in the best interests of the Company's shareholders; and
- be responsible and accountable for their actions.

Senior management immediately investigates possible failures to comply with the principles of ethical and responsible conduct, employing the use of third party expertise where necessary. The appropriate level of disciplinary action is applied where departures from these principles are confirmed.

This Code is regularly reviewed and updated as necessary to ensure it remains consistent with the Board's objectives.

Recommendation 3.2: Establish a policy concerning diversity, and disclose the policy or a summary of that policy.

Diversity Policy

The Company believes in the value of a diverse workforce and is committed to actively supporting diversity of gender, race, ethnicity, age, disability and cultural background. The Company believes that embracing diversity in its workforce contributes to the achievement of its corporate objectives and enhances its reputation.

The Mothercare Diversity Policy reflects this commitment and includes:

- Providing access to equal opportunities in the workplace, based on merit;
- Fostering a culture that embraces and values diversity;
- Ensuring a safe workplace by taking action against inappropriate behaviour, such as harassment, discrimination and bullying;
- Enhancing customer service and market reputation through a workforce that respects and reflects the diversity of our customers.

Recommendation 3.3: Disclose the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.

The Company has only recently established its diversity policy. The Board has not yet determined the measurable objectives for achieving gender diversity. This is therefore a departure from Recommendation 3.3. The Board will address this matter in the coming financial year.

Recommendation 3.4: Disclose the proportion of women employees at each level of the organisation

The proportion of women employees in the business as at 30 June 2012 was as follows:

Positions	% of Women
Women in management roles	89%
Women in the organisation	89%

The size and structure of the Company and the Board currently limit the scope for increases in the number of women on the Board or in senior executive roles. However, as the overwhelming majority of total employees in the Company are women, the Company is confident that progress in this area will be achieved in future years.

Mothercare Australia Limited and Controlled Entities

CORPORATE GOVERNANCE STATEMENT

Principle 4: Safeguard integrity in financial reporting

Recommendation 4.1: The Board should establish an Audit Committee.

The Company's Managing Director and Chief Financial Officer report in writing to the Board that the consolidated financial statements of the Group for each half and full financial year present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with relevant accounting standards. The Audit Committee operates throughout the year with the primary objective to assist the Board of Directors in fulfilling the Board's responsibilities relating to the accounting, reporting and financial risk management practices of the Group. In fulfilling this objective, the Audit Committee meets at least two times each year.

The main duties and responsibilities of the Audit Committee include:

- review and consideration of statutory compliance matters;
- review of the annual and half-yearly financial reports;
- recommend to the Board nominations for appointment as external auditors;
- review the scope of the audit, the level of audit fees and the performance of the external auditors;
- liaison with external auditors, review of audit planning and consideration of audit results; and
- evaluation of the adequacy and effectiveness of the Group's administrative, operating and accounting policies and internal controls through active communication with operating management and the external auditors.

Recommendation 4.2: Structure the Audit Committee so that it consists only of non-executive directors, consists of a majority of independent directors and is chaired by an independent chair, who is not chair of the board and has at least three members.

The members of the Audit Committee during the year were Mr Chester Moynihan (Chairman), Mr Robert Gavshon, and Mr David Shelmerdine. As non-executive directors the committee complies with recommendation 4.2.

Recommendation 4.3: The Audit Committee should have a formal charter.

The Audit Committee does not have a formal charter in accordance with Recommendation 4.3.

The departures from Recommendations 4.3 arise on account of the size and nature of the Group and the present structure of the Board. The Board is aware of the Corporate Governance Principles and Recommendations (2nd Edition), and will continue to work towards full adoption of the recommendations in line with growth and development of the Group in the years ahead.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1: Promote timely and balanced disclosure of all material matters concerning the Company.

The Company Secretary is responsible for all communications with the ASX. All communications with external stakeholders in respect of sensitive company information is subject to the relevant safeguarding and confidentiality procedures. These communications are undertaken in light of continuous disclosure requirements of the ASX and the broad principles of ensuring the market is fully informed of price sensitive information.

Recommendation 5.2: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for the compliance and disclosure of those policies or a summary of those policies.

Documented procedures are in place to identify matters that are likely to have a material effect on the price of the Company's securities and to ensure those matters are notified to the ASX in accordance with the Company's Listing Rule disclosure requirements. The Managing Director and Chief Financial Officer are responsible for monitoring the Company's activities in light of its continuous disclosure policy and where necessary, discussing disclosure obligations with the Board.

Mothercare Australia Limited and Controlled Entities

CORPORATE GOVERNANCE STATEMENT

Principle 6: Respect the rights of shareholders

Recommendation 6.1: Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. Use company websites to complement the official release of material information to the market.

The Board encourages communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Group.

Mechanisms employed include:

- regular shareholder communications such as half-yearly reports, and the full annual financial report;
- financial results presentations at the Company's Annual General Meeting ("AGM");
- shareholder access to communications through the use of information technology such as the Company's website; and
- utilising Computershare, the Company's share registry service provider.

The Board encourages full participation of shareholders at the AGM to ensure a high level of accountability and understanding of the Group's strategy and goals. The Company encourages the Group's external auditor to attend the AGM.

Principle 7: Recognise and manage risk

Recommendation 7.1: The Board or appropriate Board Committee should establish policies on risk oversight and management of material business risk and disclose a summary of those policies.

The Board is responsible for oversight of the Group's risk management and control framework (the Group does not have a separate Risk Management Committee). The Audit Committee assists the Board in fulfilling its responsibilities in this regard by reviewing the financial and reporting aspects of the Group's risk management and control framework. The Group has implemented a policy framework designed to ensure that the Group's risks are identified and that controls are adequate, in place and functioning effectively.

This framework will incorporate the maintenance of comprehensive policies, procedures and guidelines that encompass the Group's activities. It addresses areas such as contract negotiation, project management, occupational health and safety, environmental management, trade practices, IT disaster recovery and business continuity planning.

Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

Responsibility for control and risk management is delegated to the appropriate level of management within the Group with the Managing Director and Chief Financial Officer having ultimate responsibility to the Board for the Group's risk management and internal control activities. Arrangements put in place by the Board to monitor risk management and internal controls include:

- regular monthly reporting to the Board in respect of operations and the financial position of the Group;
- reports by the Chairman of the Audit Committee and circulation to the Board of the minutes of each meeting held by the Audit Committee;
- presentations made to the Board throughout the year by appropriate members of the Group's management team (and/or independent advisers, where necessary) on the nature of particular risks and details of the measures which are either in place or can be adopted to manage or mitigate the risk; and
- any Director may request that operational and project audits be undertaken by management.

Recommendation 7.3: The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Prior to signing the Group's annual financial statements, the Company's Managing Director and Chief Financial Officer report in writing to the Board that:

- the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

Mothercare Australia Limited and Controlled Entities

CORPORATE GOVERNANCE STATEMENT

Principle 8: Remunerate fairly and responsible

Recommendation 8.1: The Board should establish a remuneration committee.

Recommendation 8.2: The remuneration committed should be structured so that it consists of a majority of independent directors, is chaired by an independent chair and has at least three members

Recommendation 8.2: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

The Group's policies relating to Directors' and Senior Executives' remunerations are set out in the Group's annual report.

A remuneration committee was established in 2011, consisting of Mr Ross Bartlett (Chairman), Mr Robert Gavshon, and Mr Jerry Cull. Following the resignation of Mr Bartlett as a director, the current remuneration committee, consisting of Mr David Shelmerdine, Mr Robert Gavshon and Mr Jerry Cull, have met informally to discuss remuneration issues as and when the need arose.

The Group does not have any scheme for retirement benefits, other than superannuation.

It is the Group's objective to provide maximum stakeholder benefit from the retention of high quality Board members and Senior Executives by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the nature and amount of executive directors' and officers' emoluments are linked to the Group's financial and operational performance.

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MOTHERCARE AUSTRALIA LIMITED & CONTROLLED ENTITIES
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	CONSOLIDATED	
		2012	2011
		\$'000	\$'000
Continuing operations			
Revenue	4	79,371	65,657
Cost of sales		(47,361)	(40,475)
Gross profit		32,010	25,182
Other income	5	698	-
Interest income	4	24	336
Selling expenses	6	(30,472)	(28,811)
Administration expenses	6	(8,858)	(9,774)
Other expenses	6	(1,808)	(6,405)
Depreciation and amortisation expense	6	(2,931)	(2,426)
Finance costs	6	(1,370)	(595)
Operating expenses		(45,439)	(48,011)
Loss from continuing operations before income tax and gain on acquisition.		(12,707)	(22,493)
Gain on acquisition	32	-	596
Loss from continuing operations before income tax		(12,707)	(21,897)
Income tax benefit	7	395	594
Loss from continuing operations after income tax		(12,312)	(21,303)
Profit from discontinued operations	33	-	35
Loss for the year		(12,312)	(21,268)
Other comprehensive income, net of tax			
Exchange differences on translation of foreign operations		3	25
Total comprehensive income for the year		(12,309)	(21,243)

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Mothercare Australia Limited and Controlled Entities
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	CONSOLIDATED	
		2012	2011
		\$'000	\$'000
Loss for the year is attributable to:			
Members of Mothercare Australia Limited		(12,312)	(20,292)
Non-controlling interest		-	(976)
		<u>(12,312)</u>	<u>(21,268)</u>
Total comprehensive income for the year is attributable to:			
Members of Mothercare Australia Limited		(12,309)	(20,267)
Non-controlling interest		-	(976)
		<u>(12,309)</u>	<u>(21,243)</u>
Earnings/(loss) per share for (loss)/profit attributable to members of Mothercare Australia Limited			
Basic earnings/(loss) per share (cents per share)	24	(5.8)	(11.1)
Diluted earnings/(loss) per share (cents per share)	24	(5.8)	(11.1)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

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MOTHERCARE AUSTRALIA LIMITED & CONTROLLED ENTITIES
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Notes	CONSOLIDATED	
		2012	2011
		\$'000	\$'000
CURRENT ASSETS			
Cash and cash equivalents	9	1,125	3,313
Trade and other receivables	10	358	34
Inventories	11	16,053	21,297
Other assets	12	247	429
TOTAL CURRENT ASSETS		17,783	25,073
NON-CURRENT ASSETS			
Property, plant and equipment	14	12,690	11,596
Intangible assets	15	8,623	8,737
Deferred tax assets	7	1,612	1,217
TOTAL NON-CURRENT ASSETS		22,925	21,550
TOTAL ASSETS		40,708	46,623
CURRENT LIABILITIES			
Trade and other payables	16	14,500	15,715
Trade finance	9	5,010	6,963
Provisions	18	3,124	2,884
Borrowings	17	1,690	4,513
Derivative financial instruments	19	-	184
TOTAL CURRENT LIABILITIES		24,324	30,259
NON-CURRENT LIABILITIES			
Trade and other payables	16	2,170	-
Provisions	18	1,773	1,159
Borrowings	17	725	-
TOTAL NON-CURRENT LIABILITIES		4,668	1,159
TOTAL LIABILITIES		28,992	31,418
NET ASSETS		11,716	15,205
EQUITY			
Issued capital	20	66,645	57,825
Reserves	20	(2,300)	(2,303)
Accumulated losses	22	(52,629)	(40,317)
TOTAL EQUITY		11,716	15,205

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

MOTHERCARE AUSTRALIA LIMITED & CONTROLLED ENTITIES
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

<u>CONSOLIDATED</u>	Note	Issued capital \$'000	Convertible note option reserve \$'000	Foreign currency reserve \$' 000	Equity reserve \$'000	Accum. losses \$'000	Total \$'000	Non- control Interest \$'000	Total equity \$'000
As at 1 July 2010		31,001	104	(109)	123	(20,025)	11,094	780	11,874
Loss for the year		-	-	-	-	(20,292)	(20,292)	(976)	(21,268)
Other comprehensive income for the year, net of tax		-	-	25	-	-	25	-	25
Total comprehensive income for the year		-	-	25	-	(20,292)	(20,267)	(976)	(21,243)
Transactions with owners in their capacity as owners									
Elimination of non- controlling interest		-	-	-	(2,342)	-	(2,342)	196	(2,146)
Shares issued, net of equity raising costs		26,824	-	-	-	-	26,824	-	26,824
Convertible note movements net of deferred tax		-	(104)	-	-	-	(104)	-	(104)
As at 30 June 2011		<u>57,825</u>	<u>-</u>	<u>(84)</u>	<u>(2,219)</u>	<u>(40,317)</u>	<u>15,205</u>	<u>-</u>	<u>15,205</u>
As at 1 July 2011		57,825	-	(84)	(2,219)	(40,317)	15,205	-	15,205
Loss for the year		-	-	-	-	(12,312)	(12,312)	-	(12,312)
Other comprehensive income for the year, net of tax		-	-	3	-	-	3	-	3
Total comprehensive income for the year		-	-	3	-	(12,312)	(12,309)	-	(12,309)
Transactions with owners in their capacity as owners									
Convertible notes issued, net of equity raising costs	20	8,820	-	-	-	-	8,820	-	8,820
As at 30 June 2012		<u>66,645</u>	<u>-</u>	<u>(81)</u>	<u>(2,219)</u>	<u>(52,629)</u>	<u>11,716</u>	<u>-</u>	<u>11,716</u>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

MOTHERCARE AUSTRALIA LIMITED & CONTROLLED ENTITIES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	CONSOLIDATED	
		2012	2011
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		88,709	73,761
Payments to suppliers and employees (inclusive of GST)		(90,663)	(89,618)
Interest received		24	153
Other income received		73	-
Interest and other finance costs paid		(525)	(335)
Income tax paid		-	(178)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	9	(2,382)	(16,217)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash outflow on business combinations	32	-	(4,740)
Purchase of property, plant and equipment and intangible assets		(4,575)	(6,138)
Net cash proceeds from sale of business	33	-	2,000
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(4,575)	(8,878)
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	17	1,540	3,500
Repayment of borrowings & trade finance		(2,091)	(2,500)
Proceeds from issue of shares		-	18,724
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		4,769	23,603
NET DECREASE IN CASH AND CASH EQUIVALENTS		(2,188)	(1,492)
Cash and cash equivalents at the beginning of the year		3,313	4,805
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	9	1,125	3,313

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Mothercare Australia Limited and Controlled Entities

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

1. CORPORATE INFORMATION

The financial report of Mothercare Australia Limited and its controlled entities for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 30 September 2012.

Mothercare Australia Limited ("the Company") is a Company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

The principal activities during the year within the Company were the sale of educational toys, parenting and children's products and mother and child fashion.

The Company is focused on marketing and retailing exclusive brands to the Australian parenting and children's market segment.

The registered office and principal place of business of the Company is Level 1, Building 220/2A, The Entertainment Quarter, 122 Lang Road, Moore Park, NSW 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards including Interpretations, issued by the Australian Accounting Standards Board ("AASB"), as appropriate for profit oriented entities.

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

(b) Going Concern

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. This is notwithstanding that the Group incurred a loss for the year of \$12.310 million and experienced a net cash outflow from operations of \$2.382 million for the year and that current liabilities exceeded current assets by \$6.541million at 30 June 2012.

It will be necessary for the Group to raise additional capital to maintain its operations in the current financial year and enable it to continue to pursue its corporate objectives. The Board is negotiating strategic options, including potential transactions and equity raisings from existing shareholders and third parties to provide the required working capital. In the event these negotiations are not successful, such conditions would give rise to a material uncertainty that may cast significant doubt over the Group's ability to continue as a going concern. Given both the retail and capital markets in which we are operating, and the performance of the Group to date, any transaction or equity raising is likely to be at a substantial discount to market with stringent conditions, and have a significant dilutionary impact on existing shareholder value.

The net current liability of \$6.451 million includes the following elements which will not necessarily result in the payment of cash:

- \$1.54 million of Shareholder Loans which will convert to equity upon a restructure of the company;
- \$1.53 million of customer related liabilities such as gift vouchers and loyalty programme
- \$0.45 million of landlord lease incentives;
- \$0.13 million in respect of long service leave provision.

Each of these is properly included as a current liability at 30 June 2012 under Australian Accounting Standards but each of them has characteristics that suggest that it is unlikely that there will be an actual deficiency in current assets to meet the current liabilities as and when they become due.

In addition, the Directors and Management believe that the Group's trading results will improve for the following reasons:

- The majority of stores have now been converted into the Mothercare or ELC format with a better mix of more own brand products which provide significantly higher margins;
- The Mothercare brand continues to mature and the Mothercare Australia customer loyalty database is expanding rapidly;
- Improved proprietary stock availability;
- Store expansion opportunities with attractive commercial terms are being presented to the company;
- An improvement in the management of logistic costs and head office costs;
- Gaining better access to Mothercare's worldwide buying power for third party products;
- An upgrade to the Mothercare website which is expected to generate significantly more online revenue than previously generated.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

It is noted that the cash flow forecast for the company includes assumptions in relation to the following matters and, therefore, depends upon the following factors:

- Revenue being sustained at current levels;
- Continued focus on managing costs; and
- Successful conclusion of negotiations of strategic options and/or equity raisings from existing shareholders or third parties that will provide additional working capital to maintain its operations.

Based on these key assumptions, the Directors are satisfied that there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due. On this basis the financial report has been prepared on a going concern basis.

Should the Group be unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the Group be unable to continue as a going concern and meet its debts as and when they fall due.

(c) Reporting period and prior year comparatives

The financial statements have been prepared for the year ended 30 June 2012. The previous reporting period was for the year ended 30 June 2011.

(d) Statement of compliance

These financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) New Accounting Standards and Interpretations Adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the Group from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group

The following Accounting Standards and Interpretations are most relevant to the Group:

AASB 2010-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The Group has applied AASB 2010-4 amendments from 1 July 2011. The amendments made numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provided clarification of disclosures in AASB 7 'Financial Instruments: Disclosures', in particular emphasis of the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments; clarified that an entity can present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes in accordance with AASB 101 'Presentation of Financial Instruments'; and provided guidance on the disclosure of significant events and transactions in AASB 134 'Interim Financial Reporting'.

AASB 2010-5 Amendments to Australian Accounting Standards

The Group has applied AASB 2010-5 amendments from 1 July 2011. The amendments made numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board.

AASB 124 Related Party Disclosures (December 2009)

The Group has applied AASB 124 (revised) from 1 July 2011. The revised standard simplified the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. A subsidiary and an associate with the same investor are related parties of each other; entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.

AASB 1054 Australian Additional Disclosures

The Group has applied AASB 1054 from 1 July 2011. The standard sets out the Australian-specific disclosures as a result of Phase I of the Trans-Tasman Convergence Project, which are in addition to International Financial Reporting Standards, for entities that have adopted Australian Accounting Standards.

AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project

The Group has applied AASB 2011-1 amendments from 1 July 2011. These amendments made changes to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to International Financial Reporting Standards ('IFRSs') and harmonisation between Australian and New Zealand Standards. The amendments removed certain guidance and definitions from Australian Accounting Standards for conformity of drafting with IFRSs but without any intention to change requirements.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2012. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below:

New Accounting Standards and Interpretations not yet mandatory or early adopted

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This

Mothercare Australia Limited and Controlled Entities

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The Group will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the Group.

AASB 2010-8 Amendments to Australian Accounting Standards- Deferred Tax: Recovery of Underlying Assets

These amendments are applicable to annual reporting periods beginning on or after 1 January 2012 and a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life. The Group is yet to quantify the tax effect of adopting these amendments from 1 July 2012.

AASB 10 Consolidated Financial Statements

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's returns (e.g. operating policies, capital decisions, appointment of key management). The Group will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The adoption of this standard from 1 July 2013 may have an impact where the Group has a holding of less than 50% in an entity, has de facto control, and is not currently consolidating that entity.

AASB 11 Joint Arrangements

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets will use equity accounting. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, using proportionate consolidation. The adoption of this standard from 1 July 2013 will not have a material impact on the Group.

AASB 12 Disclosure of Interests in Other Entities

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation – Special Purpose Entities'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the Group such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13.

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the Group from 1 July 2013 should be minimal, although there will be increased disclosures where fair value is used.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

AASB 127 Separate Financial Statements (Revised)

AASB 128 Investments in Associates and Joint Ventures (Reissued)

These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12. The adoption of these revised standards from 1 July 2013 will not have a material impact on the Group.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2013 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the Group.

AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 127 and AASB 128. The adoption of these amendments from 1 July 2013 will not have a material impact on the Group.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income

These amendments are applicable to annual reporting periods beginning on or after 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The adoption of the revised standard from 1 July 2012 will impact the Group's presentation of its statement of comprehensive income.

(f) Basis of consolidation

The consolidated financial statements comprise the financial statements of Mothercare Australia Limited and its subsidiaries referred to collectively throughout these financial statements as the "Group" or "Group".

Subsidiaries are all those entities over which the company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries and special purpose entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'Business Combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the Statement of Comprehensive Income and Statement of Financial Position of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity. Dividends received from subsidiaries are recognised as other income by the parent entity.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Business Combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss.

Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

(h) Segment reporting

Change in accounting policy from 1 July 2010

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

(i) Foreign currency translation

Both the functional and presentation currency of Mothercare Australia Limited and its Australian subsidiaries is Australian Dollars (\$).

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

All exchange differences in the consolidated financial statements are taken to the Statement of Comprehensive Income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiary Skansen Giftware (UK) Limited is Pounds Sterling (GBP) and of the Early Learning Centre Limited in New Zealand is NZ dollar (NZD).

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Foreign currency translation (continued)

As at the reporting date the assets and liabilities of the overseas subsidiary is translated into the presentation currency of Mothercare Australia Limited at the rate of exchange ruling at the reporting date and the Statement of Comprehensive Income is translated at the weighted average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity, being the foreign currency reserve.

(j) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with maturity of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the Statement of Financial Position.

(k) Trade and other receivables

Trade receivables are recognised at fair value and subsequently at amortised cost using the effective interest rate method. Trade receivables generally have 30-90 day terms.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

(l) Inventories

Inventories are valued at the lower of cost or net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

- Finished goods and work-in-progress – cost of direct materials, freight and import charges.
- Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value.

Forward currency contracts are entered into where agreements are made to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect against the possibility of loss from future exchange fluctuations. The forward currency contracts are usually for no longer than 6 months.

The Company does not apply hedge accounting as it does not meet the requirements of the Australian Accounting Standards. The fair value of forward currency contracts are recognised through the Statement of Comprehensive Income when the underlying transaction is recognised in income. Net receipts and payments are recognised through the Statement of Comprehensive Income. Any gains or losses arising from changes in fair value are taken directly to the Statement of Comprehensive Income.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the Statement of Comprehensive Income.

(o) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated on a straight-line basis on all property, plant and equipment.

Major depreciation periods are:

	2012	2011
Plant and equipment	5 to 15 years	5 to 15 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of fixed assets is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Comprehensive Income in the period the item is derecognised.

(p) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term.

Lease incentives under operating leases are recognised as liabilities. The incentives are recognised against rent expense on a straight line basis.

(r) Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of an intangible asset is measured as the difference between net disposal proceeds and the carrying amount of the intangible assets. The method and useful lives of finite life intangibles are reviewed annually. Changes in expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Where an entity or operation is acquired in a business combination, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Licences and development right

Other intangibles include costs associated with the acquisition of the development right of the Mothercare name and store concept, as well as the acquisition of the Kids Central and Early Learning Centre licences. The licences and development right will be amortised over a period between 10 to 20 years.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Customer database

Customer database was acquired as part of an acquisition, has been recognised at fair value and will be amortised over 8 years.

(s) Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Trade and other payables

Trade payables and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition. Due to their short term nature they are measured at amortised cost and not discounted.

(u) Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

- interest on short-term and long-term borrowings
- interest on trade finance
- interest on finance leases

(v) Employee benefits

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

(w) Share-based payment transactions

In 2003 the Group provided benefits to employees of the Group in the form of share-based payment transactions, whereby employees were granted rights over shares ('equity-settled transactions') as part of their salary and incentive scheme.

The Employee Share Option Plan is currently the only plan in place and no further options have been granted since 2003. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by management using the Black-Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Mothercare Australia Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- (i) the grant date fair value of the award
- (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest and
- (iii) the extent to which the vesting period has expired. This opinion is formed based on the best available information at the reporting date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Share-based payment transactions (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(x) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(y) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards are considered passed to the buyer at the time the goods have been despatched to the customer.

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the Group's right to receive payments is established.

Royalties

Revenue is recognised when the Group receives the royalty statement from the licensee.

(z) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- except where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Income tax (continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of Comprehensive Income.

Mothercare Australia Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Mothercare Australia Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Mothercare Australia Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(aa) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(ab) Earnings per share

Basic earnings per share is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; and
- divided by the weighted average numbers of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus elements in ordinary shares issued during the financial year.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ac) Convertible notes

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

i) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that given the Group's growth plans, it is probable that future taxable profits will be available to utilise these temporary differences.

ii) Business combinations

As discussed in note 2(g), business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by management taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

iii) Goodwill and other indefinite life intangible assets

The Group tests annually whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2(r). The recoverable amounts of cash-generating units have been determined based on fair value less costs to sell.

iv) Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists the recoverable amount of the asset is determined. This involves fair value less costs to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
4. REVENUE		
Revenue from sales of goods	79,371	65,657
Interest received – external parties	24	336
Total revenues from ordinary activities	<u>79,395</u>	<u>65,993</u>
5. OTHER INCOME		
Gain on reversal of earn-out provision	525	-
Sundry income	173	-
	<u>698</u>	<u>-</u>
6. EXPENSES		
Selling expenses		
Employment costs	13,131	12,463
Rental charges	11,961	10,664
Other selling expenses	5,380	5,684
	<u>30,472</u>	<u>28,811</u>
Administration expenses		
Employment costs	5,323	5,468
Rental charges	1,685	1,582
Other administration expenses	1,850	2,724
	<u>8,858</u>	<u>9,774</u>
Other significant expenses		
Foreign exchange loss - unrealised	300	1,995
Disposal of store assets - closed BG stores	402	1,700
Write off of Kids Central intangible (note 15)	-	693
Costs of stock returned to supplier	288	-
Non-continuing restructure and administration costs	818	2,017
	<u>1,808</u>	<u>6,405</u>
Depreciation and amortisation expense		
Depreciation - plant & equipment	2,817	2,274
Amortisation - licence and development rights	114	152
	<u>2,931</u>	<u>2,426</u>

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
6. EXPENSES (continued)		
Finance costs		
Trade finance facility	473	322
Convertible notes	332	156
Shareholder loan	496	19
Bank loan	68	98
Other	1	-
	1,370	595
Employee benefits expenses		
Wages, salaries & contracting	16,074	15,275
Workers compensation costs	222	205
Superannuation costs	1,264	1,286
Payroll tax	747	695
Other employment expenses	147	470
	18,454	17,931
Net fair value loss/(gain) on derivative financial instruments	-	370
Rental expenses relating to operating leases		
Minimum lease payments	12,843	11,695
7. INCOME TAX		
Major components of income tax (benefit)/expense for the financial year includes:		
Statement of Comprehensive Income		
Current income tax	-	-
Deferred tax relating to origination and reversal of temporary differences	(395)	(594)
Income tax (benefit)/expense reported in the Statement of Comprehensive Income	(395)	(594)
Deferred tax included in income tax (benefit)/expense comprises:		
Increase in deferred tax assets	(395)	(594)
Decrease in deferred tax liabilities	-	-
	(395)	(594)

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

CONSOLIDATED

2012 2011
\$'000 \$'000

7. INCOME TAX (continued)

Numerical reconciliation between income tax (benefit)/expense recognised in the Statement of Comprehensive Income to prima facie tax payable

Loss before income tax (benefit)/expense from continuing operations	(12,707)	(21,897)
Tax at the Australian statutory income tax rate of 30% (2011: 30%)	(3,812)	(6,569)
Non-deductible items	160	1,229
Tax losses not brought to account	3,257	4,773
Income tax (benefit)/expense	(395)	(594)

STATEMENT OF FINANCIAL POSITION		STATEMENT OF COMPREHENSIVE INCOME	
2012	2011	2012	2011
\$'000	\$'000	\$'000	\$'000

Deferred income tax

Deferred income tax comprises temporary differences relating to the following:

Deferred tax assets

Employee leave entitlements	291	396	105	(144)
Other employee related items	116	92	(24)	(68)
Provision for doubtful debts	-	-	-	8
Accruals and other provisions	1,205	729	(476)	(656)
Amortisation of intangibles	-	-	-	22
Gross deferred tax assets	1,612	1,217		
Adjustments to deferred tax assets on business combinations (Note 32)			-	244

Made up as follows:

Continuing operations	1,612	1,217		
	1,612	1,217		

Deferred tax expense/(benefit)			(395)	(594)
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Aggregate deferred income tax expense is attributable to:

Continuing operations			(395)	(594)
Discontinued operations			-	-
			(395)	(594)

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Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

7. INCOME TAX (continued)

Tax losses

Management of Mothercare Australia Limited has received advice that the revenue and capital tax losses of the Mothercare Australia Limited tax consolidated group will be available subject to the entity continuing to pass either the continuity of ownership or same business test criteria in the future as outlined in the Income Tax Assessment Act. The outcome of potential transactions subsequent to year end and any other changes may affect the ability of the group to pass these tests.

The Australian tax consolidated group has approximately \$45.7 million of revenue and capital tax losses (\$13.7 million tax effected).

Tax consolidation

Mothercare Australia Limited and its 100% owned Australian subsidiaries are a tax consolidated group. Members of the tax consolidated group have entered into a tax funding arrangement in order to allocate income tax expense/(benefit) to the wholly owned subsidiaries on the basis as if they were individual tax entities.

CONSOLIDATED

2012	2011
\$'000	\$'000

8. DIVIDENDS PAID

Dividends paid during the year

-	-
-	-

Franking credit balance

The amount of franking credits available for the subsequent financial year are:

Franking account balance as at the end of the financial year at 30% (2011: 30%)

Franking debits that will arise from the refund of income tax payable as at the end of the financial year

3,256	2,996
-	-
3,256	2,996

9. CASH AND CASH EQUIVALENTS

Cash at bank and in hand

1,125	3,313
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Reconciliation of cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at the reporting date:

Balance as above

1,125	3,313
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Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

CONSOLIDATED
2012 2011
\$'000 \$'000

9. CASH AND CASH EQUIVALENTS (continued)

Reconciliation of the net loss after tax to the net cash flows from operations

Net loss after tax	(12,309)	(21,243)
Depreciation and amortisation expense	2,931	2,426
Write-off of fixed assets	552	150
Impairment expense	-	693
Fair value adjustment on foreign exchange contracts outstanding	(184)	184
Interest accrual	845	20
Write-back of earn-out provision	(525)	525
Foreign exchange losses	300	1,771
Landlord contribution	(338)	(259)
Other non-cash items	(170)	(541)
Changes in assets and liabilities		
(Increase) in trade receivables	(324)	(356)
Decrease/(increase) in inventory	5,244	(4,530)
(Increase) in deferred tax asset	(395)	(586)
Decrease/(increase) in prepayments/sundry debtors	182	(393)
Increase in trade and other payables	955	4,420
Increase in provisions	854	1,502
Net cash flow from operating activities	(2,382)	(16,217)

The Group and the parent entity have bank bills/letter of credit facility.

Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

Total facilities available

Trade finance	7,000	7,000
Credit cards	100	100
Bank guarantees	2,000	2,000

Used at the reporting date:

Forward exchange contracts	-	3,421
Trade finance	5,010	6,963
Credit cards	5	20
Bank guarantees	1,844	-

Unused at the reporting date:

Forward exchange contracts	4,000	579
Trade finance	1,990	37
Credit cards	95	80
Bank guarantees	156	2,000

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

9. CASH AND CASH EQUIVALENTS (continued)

(a) Trade finance balance as at 30 June 2012 of \$5,010,000 (2011: \$6,963,000) excludes interest payable at reporting date of \$78,000 (2011: \$81,000), therefore the group had not exceeded the facility limit.

Trade Finance has a limit facility of \$7m and provides credit on international counter season stock for between 100 and 180 days. The average interest rate on the loan facility is 7.0% (2011: 6.5%). The trade finance facility is secured with a fixed and floating charge over the assets of the Group.

Non-cash financing and investing activities

During the year the Group and the parent entity did not acquire any plant and equipment by way of finance leases.

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
10. TRADE AND OTHER RECEIVABLES (CURRENT)		
Trade receivables	23	34
Provision for impairment of trade receivables	(a) -	-
	<u>23</u>	<u>34</u>
Sundry debtors	335	-
	<u><u>358</u></u>	<u><u>34</u></u>

(a) Allowance for impairment loss for continuing operations

Trade receivables are non-interest bearing and are generally on 30 day terms except for some who are on 60-90 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. No impairment loss has been recognised for 2012 (2011: Nil).

Movements in the provision for impairment loss were as follows:

Opening balance	-	26
Amounts charged/(written back) during the year	-	2
Provision released	-	(28)
Closing balance	<u>-</u>	<u>-</u>

As at reporting date, the ageing analysis of trade receivables is as follows:

	Total	0-30	31-60	31-60	61-90	61-90	+91	+91
		days	days	days	days	days	days	days
	\$'000	\$'000	\$'000	PDNI*	\$'000	PDNI*	PDNI*	CI*
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2012 Consolidated	23	19	4	-	-	-	-	-
2011 Consolidated	34	34	-	-	-	-	-	-

* Past due not impaired ('PDNI')
 Considered impaired ('CI')

Receivables past due but not considered impaired are nil (2011: nil).

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

CONSOLIDATED

2012 2011
\$'000 \$'000

11. INVENTORIES (CURRENT)

Finished goods - at net realisable value	16,115	21,297
Less: Provision for shrinkage	(62)	-
	16,053	21,297

12. OTHER ASSETS (CURRENT)

Prepayments	192	405
Deposits	55	24
	247	429

13. INVESTMENT IN CONTROLLED ENTITIES

	Country of incorporation	Percentage of equity interest held by the Group	
		2012 %	2011 %
Skansen Pty Limited	Australia	100	100
BK World Online Pty Limited (before 1.10.09)	Australia	100	100
A.C.N. 000 950 649 Pty Limited	Australia	100	100
Dodo Holdings Pty Limited	Australia	100	100
Skansen Giftware (UK) Limited	UK	100	100
Skansen KCG Pty Limited	Australia	100	100
Baby on a Budget Pty Ltd	Australia	100	100
Skansen KCG Pty Limited consists of the following businesses and subsidiaries:			
Kids Central / Mothercare /Early Learning Centre business	Australia	100	100
BK World Online Pty Limited	Australia	100	100
Early Learning Centre Limited	NZ	100	100

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Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

CONSOLIDATED

2012 2011
\$'000 \$'000

14. PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT)

Plant and equipment		
At cost	17,790	13,870
Accumulated depreciation	(5,100)	(2,274)
Total carrying value	12,690	11,596

Reconciliations of the carrying amount of fixed assets at the beginning and end of the financial year.

Plant and equipment

Carrying amount at the start of the year		11,596	6,029
Additions		4,613	6,423
Acquisitions through business combinations	32	-	3,564
Disposals through business sale	33	-	(164)
Disposals		(300)	(1,982)
Write-off of store assets		(402)	-
Depreciation	6	(2,817)	(2,274)
Carrying amount at the end of the year		12,690	11,596

15. NON-CURRENT ASSETS - INTANGIBLES

Customer database - at cost		395	395
Less: impairment		-	-
		395	395

Goodwill on acquisition – at cost	32	6,253	6,253
Less: impairment		-	-
		6,253	6,253

Licence and development rights - at cost		3,050	3,050
Less: accumulated amortisation		(382)	(268)
Less impairment of Kids Central intangible asset		(693)	(693)
		1,975	2,089
Total intangibles		8,623	8,737

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Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

15. NON-CURRENT ASSETS – INTANGIBLES (continued)

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Patent & trademarks \$'000	Goodwill on acquisition \$'000	Licence & development rights \$'000	Customer Database \$'000	Total \$'000
Consolidated					
Balance at 1 July 2010	5	3,607	2,935	-	6,547
Additions through business combinations (note 32)	(5)	2,646	-	395	3,036
Impairment of assets	-	-	(693)	-	(693)
Amortisation expense	-	-	(153)	-	(153)
Balance at 30 June 2011	-	6,253	2,089	395	8,737
	Patent & trademarks \$'000	Goodwill on acquisition \$'000	Licence & development rights \$'000	Customer database \$'000	Total \$'000
Consolidated					
Balance at 1 July 2011	-	6,253	2,089	395	8,737
Impairment of assets	-	-	-	-	-
Amortisation expense	-	-	(114)	-	(114)
Balance at 30 June 2012	-	6,253	1,975	395	8,623

Goodwill is allocated to the following cash-generating unit (CGU):

	Consolidated	
	2012 \$'000	2011 \$'000
Mothercare	6,253	6,253

Management has assessed the Mothercare CGU as one retail segment, inclusive of baby goods and baby products.

Impairment of cash generating units including goodwill and indefinite life assets

Impairment Disclosures

The impairment of licence and development rights is due to the write off of the Kids Central intangible. This intangible relates to the Kids central format stores which have been, or will be, converted to the Mothercare store format.

The recoverable amount of the cash-generating unit's goodwill has been determined by a value in use calculation using a discounted cash flow model, based on a 3 year projection period approved by management and extrapolated for a further 2 years using a steady growth rate, together with a terminal value.

The key assumptions used in the models are those to which the recoverable amount of an asset is most sensitive.

The following key assumptions were used in the discounted cash flow model for the company;

- (a) 21% pre-tax discount rate
- (b) 3% per annum projected growth rate

The discount rate of 21% pre-tax reflects management's estimate of the time value of money and the entity's weighted average cost of capital, the risk free rate and the volatility of the share price relative to market movements.

Management believes the projected 3% long term growth rate is reasonable and justified given the planned number of store expansions and general inflation.

There were no other key assumptions.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

15. NON-CURRENT ASSETS – INTANGIBLES (continued)

Sensitivity

As discussed above, the directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill may vary in the carrying amount. The sensitivities are as follows:

- (i) Revenue would need to decrease by more than 1.5% for Mothercare before goodwill needs to be impaired, with all other assumptions remaining constant.
- (ii) If the discount rate were to increase by more than 10% the goodwill would need to be impaired by \$334,000 with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of the group's goodwill is based would not cause the group's carrying amount to exceed its recoverable amount.

If there are any negative changes in the key assumptions on which the recoverable amount of goodwill is based, this would result in an impairment of goodwill.

Amortisation of Intangibles has been recognised in the Depreciation and Amortisation expense in the Statement of Comprehensive Income.

CONSOLIDATED

2012 2011
\$'000 \$'000

16. TRADE AND OTHER PAYABLES

Current

Trade payables	12,168	14,408
Other payables	2,332	1,307
	14,500	15,715

Non-Current

Trade payables	2,170	-
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Amounts payable in foreign currencies not effectively hedged:

GB Pounds	4,636	5,105
US Dollars	1,146	17

17. BORROWINGS

Current

ANZ Bank loan	150	1,013
Shareholder loans	1,540	3,500
	1,690	4,513

Bridging loans of \$1.54m were provided by Mothercare UK and the Myer Family Company to support ongoing working capital requirements. It has been agreed that these loans will be capitalised as part of a future equity issue.

Non-Current

ANZ Bank loan	725	-
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Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	CONSOLIDATED	
		2012 \$'000	2011 \$'000
18. PROVISIONS			
Current			
Employee benefits (a)		949	1,032
Other employee provisions (b)		200	-
Gift vouchers/laybys (c)		1,110	929
Earn-out (Note 32)		-	525
Customer loyalty points (e)		420	170
Provision for fixed asset disposal (f)		-	150
Landlord contribution (d)		445	120
		3,124	2,884
Non-Current			
Provision for make-good (leases) (g)		-	80
Employee benefits (a)		47	434
Landlord contribution (d)		1,726	645
		1,773	1,159

- (a) The provision for employee benefits represents annual leave, long service leave and other entitlements. The calculation of the present value of future cash flows in respect to long service leave is based on historical data.
- (b) Other amounts provided in respect of employee benefits and entitlements.
- (c) Sales on layby product are only recognised after final layby instalment.
- (d) Landlord contribution relates to lease incentives deferred over the period of each lease.
- (e) Loyalty points accrued on the Mothercare and Early Learning Centre loyalty programme.
- (f) Provision for fixed asset disposal.
- (g) Provision for store make good costs.

Movements in provisions

Movements in provisions during the financial year:

	Gift Vouchers /Laybys		Landlord Contribution	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Carrying amount at the start of the year	1,032	-	765	366
Contributions received	-	-	1,744	507
Issued in the year	2,826	1,180	-	-
Amount written back to Statement of Comprehensive Income	(2,748)	(148)	(338)	(108)
Carrying amount at the end of year	1,110	1,032	2,171	765

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

18. PROVISIONS (continued)

	Earn Out		Customer Loyalty	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Carrying amount at the start of the year	525	-	170	-
Recognised/issued in the year	-	525	1,195	838
Amount written back to Statement of Comprehensive Income	(525)	-	(945)	(668)
Carrying amount at the end of year	-	525	420	170

	Provision for Fixed Assets Disposal		Make Good Provision	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Carrying amount at the start of the year	150	-	80	-
Recognised in the year	-	150	-	80
Amount written back to Statement of Comprehensive Income	(150)	-	(80)	-
Carrying amount at the end of year	-	150	-	80

CONSOLIDATED

2012 \$'000	2011 \$'000
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19. DERIVATIVE FINANCIAL INSTRUMENTS (CURRENT)

Derivative financial instruments - liability	-	(184)
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The derivative financial instruments represent foreign exchange contracts not effectively hedged at the reporting date and are reported through the Statement of Comprehensive Income at fair value. At 30 June 2012, the Company held no foreign exchange contracts.

20. ISSUED CAPITAL

(a) Issued and Fully Paid

212,920,556 ordinary shares fully paid (2011: 212,920,556)	57,825	57,825
50,899,654 Mandatory Converting Notes (2011: Nil)	8,820	-
	66,645	57,825

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

20. ISSUED CAPITAL (continued)

(b) Movement on Share Issue

	CONSOLIDATED	
	No.	2012 \$'000
Balance at the beginning of the year	212,920,556	57,825
Convertible notes issued	-	8,820
Balance as at the end of the year	212,920,556	66,645

During the year ended 30 June 2012 Mothercare Australia issued pro rata non-renounceable rights issue to shareholders of 1 new Mandatory Converting Note for every 5 Shares held on the record date at \$0.18 per security converting into 1 share for every Mandatorily Converting Note subscribed for. The pro rata non-renounceable rights issue was completed on 26 September 2011.

Eligible shareholders subscribed for approximately 25,336,554 Mandatorily Converting Notes (\$4.56m) under the offer (representing approximately 60% of new mandatorily converting notes available under the offer).

Under subscriptions for the offer 17,229,767 new Mandatorily Converting Notes were partially taken up by the underwriters to the extent of \$3.1m, in accordance with the underwriting agreements, details of which are set out in the prospectus dated 1 September 2011.

The total working capital raised from the rights issue was \$7.66m offset by legal and professional fees of \$0.28m. Part of the working capital raised includes the conversion of the \$3.5m of shareholder loans per the financial report 30 June 2011 to convertible notes. There is no contractual obligation on the company to deliver cash or repay any principal on the notes. A fixed number of shares will be issued upon the conversion of the notes, which mature 3 years from the date of issue or by election by convertible note holders as set out in the prospectus dated 1 September 2011.

A further 8,333,333 Mandatorily Converting Notes were issued to Myer Family Company under the same terms and conditions as the September 2011 issue. The total working capital raised from this issue was \$1.5m offset by professional fees of \$0.06m.

In accordance with AASB 132 "Financial Instruments Presentation", the accounting treatment of the issued Mandatorily Converting Notes is such that there was a total increase in equity of \$9.16m reduced by the related legal and professional fees of \$0.34m, leaving a net Equity increase of \$8.82m

(c) Nature and purpose of reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Convertible note reserve

The convertible note reserve was cleared during the 2011 financial year following settlement of the outstanding convertible note loan and subsequent release of the equity portion of that loan.

Equity reserve

Movement in the equity reserve has resulted due to the elimination of non-controlling interest on the acquisition of the remaining interest in Skansen KCG Pty Ltd.

(d) Terms and conditions of contributed equity

Ordinary Shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

The ordinary Shares have no par value and there is no limited amount of authorised capital.

(e) Share options

During the year, nil options were issued (2011: nil).

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, trade finance, cash and short-term deposits and forward foreign exchange contracts (derivative financial instruments). These activities expose the Group to a variety of financial risks: market risk (including foreign currency risk, interest rate risk), credit risk and liquidity risk.

The Directors manage the different types of risks to which it is exposed by considering risk and monitoring levels of exposure to interest rate and foreign exchange risk and by being aware of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through general business budgets and forecasts.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

The Group holds the following financial instruments:

<i>Group</i>	Fixed interest rate		Floating interest rate		Non-interest bearing		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets								
Cash and cash equivalents	-	-	1,125	3,313	-	-	1,125	3,313
Derivative financial instruments	-	-	-	-	-	-	-	-
Trade debtors	-	-	-	-	23	34	23	34
<i>Financial Assets</i>	-	-	1,125	3,313	23	34	1,148	3,347
Financial liabilities								
Borrowings	1,540	3,500	875	1,013	-	-	2,415	4,513
Derivative financial instruments	-	-	-	-	-	184	-	184
Trade finance (excluding interest)	-	-	5,010	6,963	-	-	5,010	6,963
Trade and other payables	-	-	-	-	16,670	15,715	16,670	15,715
<i>Financial Liabilities</i>	1,540	3,500	5,885	7,976	16,670	15,899	24,095	27,375
Net Exposure	(1,540)	(3,500)	(4,760)	(4,663)	(16,647)	(15,865)	(22,947)	(24,028)

Market Risk

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's short term deposits held, borrowings and trade finance.

Sensitivity analysis

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

Management considers the below movements in interest rates to have a material impact on the Group's interest rate exposure.

If interest rates had moved, as illustrated in the table below, with all other variables held constant, loss and net assets would have been affected as follows:

	Group	
	2012	2011
	\$'000	\$'000
If interest rates were 1% higher	44	31
If interest rates were 1% lower	(44)	(31)

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposure arises from purchases by Skansen KCG Pty Ltd in currencies other than the unit's measurement currency. In order to protect against exchange rate movements, the group has periodically entered into forward foreign exchange contracts. Management generally has a risk policy to hedge a proportion of the risk against anticipated transactions. At 30 June, 2012 there were no outstanding forward exchange contracts, due to a change in the timing of payments to overseas suppliers.

	Note	2012	2011
<u>Expressed in foreign currencies</u>			
Forward exchange contracts (buy foreign currency) - USD		-	-
Trade payables – USD'000	16	1,146	17
Forward exchange contracts (buy foreign currency) - GBP		-	2,138
Trade payables – GBP'000	16	4,636	5,105

The maturity, settlement amounts and the average contractual exchange rates of the Group's outstanding forward foreign exchange contracts at the reporting date was as follows:

<u>Expressed in foreign currencies</u>	Sell Australian Dollars		Average Exchange Rates	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
<u>Buy US Dollars</u>				
Maturity:				
0-3 months	-	-	-	-
3-6 months	-	-	-	-
<u>Buy GB Pounds</u>				
Maturity:				
0-3 months	-	2,138	-	0.625
3-6 months	-	-	-	-

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date was as follows:

Expressed in Australian dollars	Assets		Liabilities	
	2012	2011	2012	2011
Translated at spot rates at reporting date	\$'000	\$'000	\$'000	\$'000
Consolidated				
US Dollars	-	-	1,128	16
GB Pounds	-	-	7,127	7,709
NZ Dollars	153	155	135	56
	153	155	8,390	7,781

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk (continued)

Foreign currency risk (continued)

The Group had net liabilities denominated in foreign currencies of \$8.237m (assets \$0.153m less liabilities \$8.39m) as at 30 June 2012 (2011: \$7.63m (assets \$0.15m less liabilities \$7.78m)).

Sensitivity analysis

Based on this exposure, had the Australian Dollar weakened by 10% or strengthened by 5% (2011: weakened by 10% or strengthened by 5%) against these foreign currencies with all other variables held constant, the Group's loss before tax for the year would have been \$0.931m higher or \$0.430m lower (2011: \$0.848m higher or \$0.364m lower) and equity would have been \$0.931m lower or \$0.430m higher (2011: \$0.848m lower or \$0.364m higher).

The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements over the last 6 months each year and the spot rate at each reporting date. The actual foreign exchange loss for the year ended 30 June 2012 was \$0.300m (2011: \$1.63m).

Credit Risk

Credit risk arises from the Group's cash and cash equivalents, deposits with banks as well as credit exposure to wholesale and independent retail customers.

Credit risk is managed on a Group basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements. The Group does not hold any collateral but in many instances have personal/directors' guarantees from the customers.

Management closely monitors the receivable balance on a monthly basis and is in regular contact with customers to mitigate risk.

The Group trades only with recognised, creditworthy third parties.

It is the Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. The Group's exposure to bad debts is not significant and is detailed in note 10.

Price Risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

Liquidity risk

The Group's objective is to maintain sufficient available funding to meet its operational commitments and acquisitions that may arise. The need for available funds is monitored through the preparation and maintenance of future rolling cash flow forecasts.

The Group's financial liabilities as at the reporting date comprise of trade payables, trade finance facility, borrowings and foreign currency forward contracts; and under the agreed terms, foreign currency forward contracts are payable within 12 months of the reporting date.

The Group's financing arrangements are shown in note 9 in the financial statements.

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity Risk (continued)

Consolidated - 2012	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	12,732	2,170	-	-	14,902
Other payables	-	1,768	-	-	-	1,768
<i>Interest-bearing - variable rate</i>						
Trade finance	7.00	5,010	-	-	-	5,010
ANZ Bank loan	6.75	150	150	450	125	875
<i>Interest-bearing - fixed rate</i>						
Short term loan	10.00	1,540	-	-	-	1,540
Total non-derivatives		21,200	2,320	450	125	24,095
Derivatives						
Forward foreign exchange contracts net settled		-	-	-	-	-
Consolidated - 2011						
	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	14,408	-	-	-	14,408
Other payables	-	1,307	-	-	-	1,307
<i>Interest-bearing - variable rate</i>						
Trade finance	8.00	6,963	-	-	-	6,963
ANZ Bank loan	7.62	1,013	-	-	-	1,013
<i>Interest-bearing - fixed rate</i>						
Short term loan	10.00	3,500	-	-	-	3,500
Total non-derivatives		27,191	-	-	-	27,191
Derivatives						
Forward foreign exchange contracts net settled	-	3,421	-	-	-	3,421

Fair values

The following tables detail the Group's fair values of financial instruments categorised by the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value (continued)

Consolidated – 2012	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial instruments	-	-	-	-
Consolidated – 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Derivative financial instruments	-	184	-	184

There were no transfers between levels during the financial year, or the prior year.

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

All assets and liabilities recognised in the Statement of Financial Position, whether they are carried at cost or at fair value, are recognised at amounts that represents a reasonable approximation of fair values unless otherwise stated in the applicable notes.

CONSOLIDATED

2012 2011
\$'000 \$'000

22. ACCUMULATED LOSSES

Balance at the beginning of the financial year	(40,317)	(20,025)
Loss for the year attributable to members	(12,312)	(20,292)
Total	(52,629)	(40,317)
Dividends paid (Note 8)	-	-
Balance at end of the financial year	(52,629)	(40,317)

23. COMMITMENTS

(a) Operating lease expenditure commitments

Operating Leases (non-cancellable)

- not later than one year	8,579	6,449
- later than one year and not later than five years	22,987	16,008
- greater than five years	1,558	643
- aggregate lease expenditure contracted for at the reporting date	33,124	23,100

Operating lease commitments include contracted amounts for stores and properties. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

23. COMMITMENTS (continued)

	Consolidated	
	2012	2011
	\$000's	\$000's
(b) Remuneration commitments		
Commitments for the payment of salaries and other remuneration under long term employment contracts in existence at the reporting date but not recognised as liabilities payable:		
- not later than one year	-	250
- later than one year and not later than five years	-	-
	<hr/>	<hr/>
	-	250

Remuneration commitments include contracted amounts arising from the service agreements of key management personnel as disclosed in the remuneration report in the directors report.

	2012	2011	2012	2011
	\$'000's	\$'000's	EPS (Cents)	EPS (Cents)
24. EARNINGS PER SHARE				
Basic earnings per share				
Net loss attributable to members of Mothercare Australia Limited	(12,312)	(20,292)	(5.8)	(11.1)
Weighted average number of ordinary shares (in thousands) on issue used in the calculation of basic earnings per share	212,921	183,046		
Diluted earnings per share				
Net loss attributable to members of Mothercare Australia Limited	(12,312)	(20,292)	(5.8)	(11.1)
Weighted average number of ordinary shares (in thousands) on issue used in the calculation of diluted earnings per share	212,921	183,046		

25. CONTINGENT LIABILITIES

The Group has given bank guarantees as at 30 June 2012 of \$2.510m (2011: \$1.884m) to various landlords, held over the life of the lease term.

At the reporting date, there was a dispute between the Group and a supplier. At this stage the Group believes this will not result in a material liability.

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Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

26. KEY MANAGEMENT PERSONNEL

Details of directors and key management personnel

(i) Directors

The following personnel were directors of Mothercare Australia Limited during the financial year:

R Gavshon	Non-executive Chairman
B Dennison	Executive Director (Non-executive from 30 June 2012)
R Bartlett	Non-executive Director – resigned 30 November 2011
M Lewis	Non-executive Director – resigned 30 November 2011
J Cull	Non-executive Director
D Shelmerdine	Non-executive Director
C Moynihan	Non-executive Director

(ii) Other key management personnel

R De Lorenzo	Company Secretary/Chief Financial Officer – resigned 11 October 2011
D James	Company Secretary/Chief Financial Officer – appointed 6 February 2012
C Murphy	Company Secretary/Chief Financial Officer – appointed 14 November 2011, resigned 17 February 2012

Key management compensation

Detailed remuneration disclosures are provided in Sections A – E of the Remuneration Report on pages 7 to 10 of the directors report.

	CONSOLIDATED	
	2012	2011
	\$	\$
Short-term employee benefits	603,575	1,111,843
Cash bonus	-	50,000
Allowances	-	34,686
Termination	60,534	392,500
Post-employment benefits	53,183	89,635
	717,292	1,678,664

Shareholdings in Mothercare Australia Ltd of directors and key management personnel

30 June 2012

	<i>Balance at 1 July 2011</i>	<i>Granted as remuneration</i>	<i>Options exercised</i>	<i>Convertible Notes</i>	<i>Net change other</i>	<i>Balance at 30 June 2012</i>
Directors						
B Dennison	11,779,374	-	-	-	-	11,779,374
R Gavshon	-	-	-	1,284,479	-	1,284,479
M Lewis (resigned Nov 2011)	5,373,748	-	-	-	-	5,373,748
Other Key Management Personnel						
R de Lorenzo	20,000	-	-	-	-	20,000

30 June 2011

	<i>Balance at 1 Jul 2010</i>	<i>Granted as remuneration</i>	<i>Options exercised</i>	<i>Convertible Notes</i>	<i>Net change other</i>	<i>Balance at 30 June 2011</i>
Directors						
B Dennison	12,741,374	-	-	-	(962,000)	11,779,374
M Lewis	-	-	-	-	5,373,748	5,373,748
G Elkington	8,492,346	-	-	-	(7,433,346)	1,059,000
G Choo	82,567	-	-	-	(82,567)	-
Other Key Management Personnel						
R de Lorenzo	-	-	-	-	20,000	20,000

There were no options on issue during the year (2011: Nil)

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

27. AUDITORS' REMUNERATION

CONSOLIDATED

	2012	2011
	\$	\$
Amounts received or due and receivable by the auditors of Mothercare Australia Limited for:		
– an audit or review of the financial statements of the entity and any other entity in the Group	197,500	245,333
– other assurance services in relation to the entity and any other entity in the Group	20,750	13,500
	218,250	258,833

28. RELATED PARTY DISCLOSURES

a) The directors of Mothercare Australia Limited during the financial year were:

B Dennison
R Bartlett (Resigned 30 November 2011)
M Lewis (Resigned 30 November 2011)
J Cull
R Gavshon
C Moynihan
D Shelmerdine

b) Interests in subsidiaries are shown in Note 13.

c) Mothercare Australia Limited is the ultimate parent entity.

d) Disclosures relating to key management personnel are set out in Note 26 and the Remuneration report in the Directors' report

e) The following related party transactions occurred during the financial year, all were on normal commercial terms:

(i) *Transactions with related parties in wholly-owned group*

- Loans made by Mothercare Australia Limited to wholly-owned entities repayable on demand: Nil (2011: \$27,714,000); and
- Loans made to Mothercare Australia Limited by wholly-owned entities repayable on demand Nil (2011: Nil).

(ii) *Transactions with director-related entities.*

There were no transactions with director-related entities up to 30 June 2012 (2011: nil).

(iii) *Shareholder and related party loans*

The shareholder loans comprises of two short term loans by Mothercare plc \$0.77m, and Myer Family \$0.77m, which was provided to support ongoing working capital requirements. It has been agreed that these loans will be capitalised as part of a future equity issue, as disclosed in Note 17.

(iv) *Purchases from Shareholders*

Purchases from Mothercare UK \$11,249,000 (2011: \$15,612,000)

(f) All transactions were made on commercial terms and conditions and at market rate.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

29. SEGMENT INFORMATION

Description of Segments

Management has determined the operating segments based on reports reviewed by the executive management committee for making strategic decisions. The executive management committee comprises of the Managing Director, Chief Financial Officer and divisional managers. The committee monitors the business based retail contribution. The retail segment consists primarily of early childhood products and services delivered across several brands.

Year ended 30 June 2012

Operating Segments

	Retail
	\$'000
REVENUE	
Sales to external customers	79,371
Other income	698
	<hr/>
	80,069
Interest revenue	24
	<hr/>
Total segment revenue	80,093
	<hr/>
RESULT	
Segment contribution/(loss)	(249)
Expenses below contribution	(6,349)
	<hr/>
Trading loss	(6,598)
Finance costs	(1,370)
Depreciation & amortisation	(2,931)
Significant non-recurring other costs	
FX Loss	(300)
Non continuing administration costs	(1,106)
Disposal of BG store assets due to closure	(402)
	<hr/>
Net loss from continuing operations before tax	(12,707)
Income tax benefit	395
	<hr/>
Net loss for the year	(12,312)
	<hr/>
SEGMENT ASSETS	40,708
	<hr/>
SEGMENT LIABILITIES	28,992
	<hr/>

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

29. SEGMENT INFORMATION (continued)

Year ended 30 June 2011

Operating Segments

	Retail \$'000	Giftware* (Discontinued) \$'000	Total \$'000
REVENUE			
Sales to external customers	65,657	1,339	66,996
Other income	-	-	-
	<hr/> 65,657	<hr/> 1,339	<hr/> 66,996
Interest revenue			<hr/> 336
Total segment revenue			<hr/> <hr/> 67,332
RESULT			
Segment contribution/(loss)	(5,926)	62	(5,864)
Gain on acquisition			596
Expenses below contribution			<hr/> (7,168)
Trading Loss			(12,436)
Finance Costs			(595)
Depreciation and amortisation			(2,426)
Significant non-recurring other costs			
FX loss			(1,995)
Disposal of BG store assets due to closure			(1,700)
Write-off Kids Central intangible due to conversion of branded stores to Mothercare format			(693)
Non continuing administration costs			<hr/> (2,017)
Loss from operations before tax			(21,862)
Income tax benefit			594
Net loss for the year			<hr/> <hr/> <hr/> (21,268)
 SEGMENT ASSETS			 <hr/> 46,623
 SEGMENT LIABILITIES			 <hr/> 31,418

* The Giftware business (Beanie Kids) was disposed of during the financial year 2011 and has been included for comparative reasons.

The executive management committee monitors segment performance based on store contribution. This measure excludes depreciation and amortisation, unallocated head office costs and non-recurring expenditure such as restructuring transaction costs. The basis of measuring segment profit or loss has changed from the last annual financial statements, the previous basis measured performance by two segments. The current measurement is now only one retail, specifically in relation to mother and child early childhood products and services.

All operations are carried out in Australia and New Zealand and no individual customer provides greater than 10% of total revenue.

30. CAPITAL MANAGEMENT STRATEGY

Mothercare Australia and its subsidiaries objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can provide returns to shareholders, benefits to other stakeholders and to maintain an optimal capital structure to minimize the cost of capital. The Group is subject to certain financing arrangements covenants and meeting these are given priority in all capital risk management decisions. While there have been no events of default reported on the company's financing arrangements during the financial year, the current banking facility is under review with its bankers.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt. Consistently with others in the industry, Mothercare Australia monitors capital on the basis of the gearing ratio.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

30. CAPITAL MANAGEMENT STRATEGY (continued)

The Group is evaluating and negotiating strategic opportunities, including potential transactions and equity raisings from existing shareholders and third parties, that would provide additional working capital required.

The capital risk management policy remains unchanged from the 30 June 2011 Annual Report.

31. PARENT ENTITY INFORMATION

	2012	2011
	\$'000	\$'000
Information relating to Mothercare Australia Ltd:		
Current assets	31	62
Total assets	12,237	39,981
Current liabilities	(4)	-
Total liabilities	(1,544)	-
Issued capital	(66,645)	(57,825)
Accumulated losses	55,952	17,349
Total shareholders' equity	10,693	39,981
Profit/(loss) of the parent entity	(38,109)	(495)
Total comprehensive income of the parent entity	(38,109)	(495)
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries:		
• Fixed and floating charge over parent's assets and uncalled capital for borrowings from ANZ for the consolidated group.		
• Total facilities – please refer to note 9	9,100	9,100
Details of any contingent liabilities of the parent entity	-	-
Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment	-	-

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

32. BUSINESS COMBINATIONS

During the previous financial year, on 1 October 2010, Mothercare Australia Limited acquired 100% of the issued capital of Western Australian mother and baby chain called "Baby on a Budget". In addition, effective 21 September 2010, Mothercare Australia Limited acquired selected business assets and liabilities of the New South Wales and Queensland based mother and baby chain called "Babies Galore". Both these acquisitions progressed the rollout of the Mothercare national footprint. The assets and liabilities acquired through both acquisitions are as follows:

Baby on a Budget – 100% issued capital acquired on 1 October 2010

	\$'000
Purchase consideration:	
Cash	1,000
3,333,334 ordinary shares issued by Mothercare Australia Limited	1,000
Contingent consideration	525
Total purchase consideration	2,525
The assets and liabilities of the combined business at fair value are as follows:	
Cash and cash equivalents	60
Trade receivables	27
Inventories	3,041
Other assets	3
Property, plant and equipment	254
Deferred tax assets	44
Trade creditors and other payables	(1,841)
Interest-bearing loans and borrowings	(1,101)
Other creditors and accruals	(551)
Employee entitlements	(59)
Net identifiable assets and liabilities acquired	(123)
Goodwill on acquisition	2,648
	2,525

The goodwill is attributable to the Baby on a Budget existing customer network. Synergies are expected to be achieved once the highly successful model of Mothercare's Parenting Centres across Western Australia have been rolled out. None of the goodwill recognised is expected to be deductible for tax purposes.

Acquisition related costs of \$162,000 are included in the administration expenses line per the Statement of Comprehensive Income, in the previous financial year.

Revenue and profit contribution

From the date of acquisition, Baby on a Budget Pty Limited has contributed \$8.4m to revenue and a loss of \$0.133m to the result of the group. If the acquisition had occurred on 1 July 2010, the revenue would have been \$11.2m and net loss after tax would have been \$0.177m.

Contingent consideration

The contingent consideration is the fair value of the expected future earn-out to the vendors of Baby on a Budget. The earn-out is a mixture of cash and shares in Mothercare Australia Limited, if certain EBITDA figures are met. The contingent consideration is calculated by reference to the probability of weighted future expected earnings of the Baby on a Budget business.

Due to the restructuring of the Baby on a Budget stores and conversion to the Mothercare Brand format a sensitivity review of the contingent consideration has not been included.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

32. BUSINESS COMBINATIONS (continued)

Babies Galore - Selected assets and liabilities effective 21 September 2010

	\$'000
Purchase Consideration:	
Cash	3,800
16,666,666 ordinary shares issued by Mothercare Australia Limited	5,000
	<hr/>
Total purchase consideration	8,800
The assets and liabilities of the combined business at fair value are as follows:	
Inventories	6,533
Property, plant and equipment	3,310
Customer database	395
Deferred tax assets	208
Customer liabilities	(686)
Employee entitlements	(364)
	<hr/>
Net identifiable assets and liabilities acquired	9,396
Gain on acquisition	(596)
	<hr/>
	8,800

The gain on acquisition of \$2.1m which was recognised in the half year Financial Statements for 31 December 2010 has been revised and finalised at \$0.596m. The revision is in relation to an adjustment to the stock assets acquired which have been re-valued in line with fair value accounting (\$1.2m) and recognition of customer laybys (\$0.328m). The Babies Galore acquisition was made to accelerate the roll-out of the Mothercare and ELC brands to a national footprint in Australia. The gain on acquisition resulted as the Babies Galore business performance was being significantly impacted by increased pricing competition and lack of available financing. The Directors of Mothercare Australia Limited saw the opportunity of the positive margin impact of introducing the higher margin Mothercare product once the Babies Galore stores have been rebranded. This rebranding has now been completed with stores now converted to the Mothercare format.

Acquisition related costs of \$503,012 are included in the administration expenses line per the Statement of Comprehensive Income, in the previous financial year.

Revenue and profit contribution

From the date of acquisition, Babies Galore has contributed \$14.9m to revenue and a net loss of \$8m to the net loss of the group. The contribution of Babies Galore to the revenue and loss of the Group if acquisition had occurred on 1 July 2010 has not been disclosed as Babies Galore has been restructured since acquisition and it is impracticable to determine contribution since 1 July 2010.

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

33. DISCONTINUED OPERATIONS

On 31 August 2010, Mothercare Australia Limited announced the sale of Skansen KCG Giftware business (i.e. Beanie Kids) to Zoo SkyMedia Pty Ltd. As a result of Mothercare Australia Limited being clearly focused on the roll out of its Mothercare and ELC retail concepts. The Giftware business no longer formed part of Mothercare Australia's core business. Since October 2009 when Mothercare Australia acquired a controlling interest in Kids Central, Mothercare Australia emphasis has been establishing the platform to take Mothercare in Australia to a national footprint. The capital previously employed in this division will be utilised to accelerate the national footprint.

Financial information relating to Skansen KCG Giftware business from 1 July 2010 to 31 August 2010 (date of disposal), and for the year ended 30 June 2010 is set out below:

Financial Performance	1 July 2010 to 31 August 2010 \$'000
Revenue	1,339
COGS and overheads	(1,259)
Depreciation and amortisation	(27)
Net profit attributable to discontinued operations	<u>53</u>
Loss on sale of business	(18)
Income tax expense	-
Loss on sale of division after income tax	(18)
Profit from discontinued operation	<u>35</u>

Information relating to the financial position of the Giftware business at disposal date (31 August 2010) are as set out below.

	Disposal date 31 August 2010 \$'000
Assets	
Property, plant and equipment	170
Trade debtors	1,713
Inventories	691
Other assets	11
Cash and cash equivalents	-
Total assets	<u>2,585</u>
Liabilities	
Trade and other payables	414
Provision for employee entitlements	153
Total liabilities	<u>567</u>
Net assets	<u>2,018</u>

Mothercare Australia Limited and Controlled Entities
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

33. DISCONTINUED OPERATIONS (continued)

Cash flow information for the 2 months ended 31 August 2010 are as follows:

	1 July 2010 to 31 August 2010 \$'000
Net cash inflow from operating activities	67
Net cash inflow from sale of business	2,000
Net increase in cash generated by the giftware division	<u>2,067</u>

Detail of the sale of the BK brand and wholesale division are as follows:

Consideration received	2000
Carrying amount of net assets sold	2,018
Loss on sale before income tax	<u>(18)</u>
Income tax expense	-
Loss on sale after income tax	<u>(18)</u>

34. EVENTS SUBSEQUENT TO REPORTING DATE

In July, Mothercare plc extended its bridging loan agreement by \$0.96m to \$1.73m. It has been agreed that this loan will be capitalised as part of a future equity issue.

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Mothercare Australia Limited and Controlled Entities
DIRECTORS DECLARATION
FOR THE YEAR ENDED 30 JUNE 2012

The directors of the Company declare that:

- the financial statements, comprising the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity, and accompanying notes are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date.
- the Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards, as issued by the International Accounting Standards Board as described in note 2 to the financial statements.
- In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Robert Gavshon
Non-Executive Chairman

30 September 2012
Sydney

INDEPENDENT AUDITOR'S REPORT

To the members of Mothercare Australia Limited

Report on the Financial Report

We have audited the accompanying financial report of Mothercare Australia Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Mothercare Australia Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Mothercare Australia Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(b) in the financial report, which indicates that the consolidated entity incurred a net loss of \$12.310 million during the year ended 30 June 2012, experienced a net cash outflow from operations of \$2.382 million for the year and, as at 30 June 2012, the consolidated entity's current liabilities exceeded its current assets by \$6.541 million. These conditions, along with other matters as set forth in Note 2(b), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 10 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Mothercare Australia Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership



John Bresolin
Partner

Sydney, 30 September 2012

MOTHECARE AUSTRALIA LIMITED & CONTROLLED ENTITIES

SHAREHOLDER INFORMATION

FOR THE YEAR ENDED 30 JUNE 2012

Additional information required by the Australian Stock Exchange Limited not shown elsewhere in this report is as follows:

The information is current as at 17 September 2012.

1. Substantial shareholders

Shareholder	Shares	%
MOTHECARE FINANCE LIMITED	49,063,500	23.04
J P MORGAN NOMINEES AUSTRALIA LIMITED	25,555,128	12.00
M F CUSTODIANS LTD	21,666,666	10.83
BRENT RONALD DENNISON	11,779,374	5.53

2. Securities subject to voluntary escrow:

Nil

1. Statement of shareholdings

Shareholder	Number Held	% of total Shares issued
MOTHECARE FINANCE LIMITED	49,063,500	23.04
J P MORGAN NOMINEES AUSTRALIA LIMITED	25,555,128	12.00
M F CUSTODIANS LTD	21,666,666	10.18
MR BRENT DENNISON	11,779,374	5.53
AUSTRALIAN EXECUTOR TRUSTEES LIMITED	8,916,666	4.19
ALLEGRO PRIVATE EQUITY FUND 1 BV	7,750,001	3.64
J EDWARDS INVESTMENTS PTY LTD <J EDWARDS INVEST SUPER A/C>	7,000,000	3.29
JESSFIELD LIMITED	5,373,748	2.52
MR MORGAN EVAN WILLIAMS	3,953,026	1.86
MR GIUSEPPE PALUMBO	3,952,922	1.86
EQUIPMENT COMPANY OF AUSTRALIA PTY LIMITED	3,890,508	1.83
MR DAVID JOHN PHIPPARD + MRS ELAINE MARIE PHIPPARD <PHIPPARD SUPER FUND A/C>	2,733,334	1.28
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	2,130,140	1.0
MR KERRY PAUL GALLOWAY + MRS MERLE LORRAINE GALLOWAY <KERRY GALLOWAY S/F A/C>	2,070,025	0.97
MR DAVID JACOB SCHWARTZ + MRS MELANIE ANN SCHWARTZ <DAVID SCHWARTZ S/F>	1,848,500	0.87
PERPETUAL TRUSTEES CONSOLIDATED LIMITED <CLIME ASSET MANAGEMENT A/C>	1,692,311	0.79
OASYS AUSTRALIA PTY LTD	1,538,461	0.72
MR WARREN STEWART LOWE <THE LOWE FAMILY A/C>	1,396,001	0.66
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,369,082	0.64
PICTON COVE PTY LTD	1,252,968	0.59
	<hr/>	
	164,932,361	

Proportion held by 20 largest holders 77.5%

Number of shareholders holding less than a marketable parcel (<10,000) 273

Shareholder spread ordinary shares	No. of holders
1 - 1,000	156
1,001 - 5,000	367
5,001 - 10,000	159
10,001 - 100,000	351
100,001 - Over	115
	<hr/>
	1,148

4. Voting rights

Ordinary shares - carry one vote per share without restriction.

MOTHERCARE AUSTRALIA LIMITED & CONTROLLED ENTITIES DIRECTORY

DIRECTORS

Robert Gavshon
Non-Executive Chairman

Brent Dennison
Managing Director (to 29 June 2012, then Non-Executive Director)

Chester Moynihan
Non-Executive Director

David Shelmerdine
Non-Executive Director

Jerry Cull
Non-Executive Director

David James
Company Secretary/Chief Financial Officer

HEAD OFFICE

Mothercare Australia Limited (ACN 060 199 082)

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

Telephone 02 9332 9900
Facsimile 02 9358 5799

REGISTERED OFFICE

Mothercare Australia Limited

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The Entertainment Quarter
122 Lang Road
Moore Park NSW 2021

Telephone 02 9332 9900
Facsimile 02 9358 5799

SHARE REGISTRY

Computershare Investor Services Pty Limited

Level 3
60 Carrington Street
SYDNEY NSW 2000

Telephone 02 8234 5000
Facsimile 02 8234 5050
www.computershare.com

MOTHERCARE AUSTRALIA LIMITED & CONTROLLED ENTITIES
DIRECTORY

AUDITORS

BDO East Coast Partnership

Level 10
1 Margaret Street
SYDNEY NSW 2000

MOTHERCARE AUSTRALIA COMPANIES

Skansen KCG P/L (ACN 134 497 420)

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