

This document is important and requires your immediate attention.

If you are in any doubt about the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your shares in Mothercare plc, please send this circular and the accompanying documents at once to the purchaser or transferee, or to the stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

mothercare

Mothercare plc

(Incorporated in England and Wales under the Companies Act 1985, with registered number 1950509)

Special business to be conducted at the Annual General Meeting (including the adoption of new articles of association and the adoption of new share schemes)

Notice of the Annual General Meeting (the 'AGM') of Mothercare plc, to be held at the Hilton National Hotel, Elton Way, Watford, Hertfordshire WD25 8HA on Thursday, 20 July 2006 at 10.30am accompanies this circular. To be valid, the form of proxy accompanying this circular for use at the AGM (and the original or a notarily certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated) should be completed, signed and returned as soon as possible and, in any event, so as to reach the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA, by not later than 10.30am on Tuesday, 18 July 2006. Completion of a form of proxy will not prevent a shareholder from attending the AGM and voting in person if he/she so wishes.

Mothercare plc
(Incorporated in England and Wales under the Companies Act 1985, with registered number 1950509)

Directors

Ian Peacock
Karren Brady
Bernard Cragg
Neil Harrington
Ben Gordon
David Williams

Registered Office

Cherry Tree Road
Watford
Hertfordshire
WD24 6SH

12 June 2006

To Mothercare plc shareholders and, for information only, to the holders of options under the Mothercare plc 2000 Share Option Plan and the Mothercare plc Savings Related Share Option Scheme, and the holders of conditional awards under the Mothercare plc Long Term Incentive Plan and the Mothercare plc Share Matching Scheme.

Dear Shareholder

Annual General Meeting – Thursday, 20 July 2006

This letter accompanies the annual report and accounts for the 53 weeks ended 1 April 2006 (the 'Annual Report and Accounts') and the notice of the AGM (the 'AGM Notice'). The AGM is to be held on Thursday, 20 July 2006.

Resolutions 1 to 8 (inclusive) in the AGM Notice cover the ordinary business at the AGM. Explanatory notes on this ordinary business are contained on page 23 of the accompanying Annual Report and Accounts. Resolutions 9, 10, 11, 12, 13 and 14 are items of special business and you may find the following explanations of these resolutions helpful.

Resolution 9 – New Articles of Association

The Company's current articles of association (the 'Existing Articles') were adopted in 1985 and have been amended in 1988, 1994, 1996, 2000 and 2003. However, there are still a number of changes in legislation, regulation and market practice which are not reflected in the Existing Articles. The board is therefore proposing to adopt new articles of association (the 'New Articles'), which are intended to give the Company a constitution appropriate for a modern listed public company, complying with the requirements of the UK Listing Authority (the 'UKLA') and reflecting guidance issued by the investment committees of representative bodies of institutional investors (the 'IPCs').

The directors believe that it is more appropriate and efficient to replace the Existing Articles in their entirety, rather than to amend them. For the majority of clauses there is no material difference between the Existing Articles and the New Articles.

However, your attention is drawn to the general 'section 80' authority and the general 'section 89' power that would be granted pursuant to the New Articles. The Companies Act 1985 (the 'Act') prevents the directors from allotting unissued shares of the Company unless they are authorised to do so by the shareholders in a general meeting or by the articles of association (the 'section 80 authority'). Also pursuant to the Act, the Company's section 80 authority is subject to the more restricted authority whereby the directors are prohibited from issuing equity securities for cash, other than pro rata to existing shareholders, unless they are empowered to do so by special resolution or by the articles of association (the 'section 89 power'). The Existing Articles do not confer a separate section 80 authority or section 89 power; instead, the existing section 80 authority and section 89 power were granted by the shareholders at the 2001 annual general meeting and both expire on 19 July 2006. The New Articles confer a general section 80 authority upon the directors to allot shares up to £11,550,932 (being 31.8 per cent of the issued share capital of the Company) and a general section 89 power to issue equity securities for cash, other than pro rata to existing shareholders, to a maximum of £1,816,639 (being 5 per cent of the issued share capital of the Company), each for a period of five years or, if earlier, the date on which the authorities are renewed by shareholders. Accordingly, specific section 80 and section 89 resolutions are not proposed at the forthcoming AGM. The Company does not hold any treasury shares. Paragraph 15 of Appendix 1 sets out further details of the section 80 authority and the section 89 power contained in the New Articles.

The principal differences between the Existing Articles and the proposed New Articles are set out at Appendix 1 to this letter. Copies of the Existing Articles and the New Articles will be available for inspection at the Company's registered office and at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ from Monday to Friday (excluding public holidays) during normal business hours from the date of posting this document until the conclusion of the AGM, and also at the place of the AGM for at least 15 minutes prior to and during the meeting.

Resolution 10 – Purchase of Own Shares

Resolution 10, which is to be proposed as a special resolution, gives the Company authority to buy back its ordinary shares in the market as permitted by the Act. This resolution renews the authority granted at last year's annual general meeting, which expires on the date of the forthcoming AGM.

This resolution specifies the number of ordinary shares that the Company may purchase, being 7,200,000 ordinary shares, which represents less than 10 per cent of the issued ordinary share capital of the Company as at 1 June 2006 and sets minimum and maximum prices for any such purchases, reflecting the requirements of the Companies Act 1985 and the Listing Rules of the UKLA. This authority will expire at the conclusion of the AGM of the Company in 2007, unless previously renewed, varied or revoked by the Company.

The directors have no present intention of exercising the authority to purchase the Company's ordinary shares but will keep the matter under review, taking into account other investment opportunities. Any ordinary shares purchased in this way would either be held in treasury or cancelled. The authority will be exercised only if the directors believe that to do so will result in an increase in earnings per share and would be in the longer-term interest of shareholders generally.

Any purchase of ordinary shares would be by means of market purchases through the London Stock Exchange.

As at 1 June 2006 there were outstanding options over 1,947,097 ordinary shares in the Company which represent 2.68 per cent of the Company's issued ordinary share capital. If the authority to purchase the Company's ordinary shares was exercised in full, these options would represent 2.97 per cent of the Company's issued ordinary share capital.

Resolutions 11, 12, 13 and 14

Resolution 11 seeks shareholder approval to increase the limit on the number of shares that can be held by the Mothercare Employee Trust to 10 per cent of the Company's issued share capital, from time to time, which is in accordance with the guidelines issued by the Association of British Insurers. The approval of this increase in the number of shares permitted to be held by the Mothercare Employee Trust will give the Company sufficient flexibility to operate its various share options and incentive schemes. The Company will request the independent trustees of the Mothercare Employee Trust to refrain from voting the shares held within the trust.

Resolutions 12 and 13 seek shareholder approval for, respectively, the Mothercare 2006 Performance Share Plan and the Mothercare 2006 Executive Incentive Plan. These proposed long term incentives will replace the current Long Term Incentive Plan and Share Matching Scheme and are intended to strengthen alignment with shareholder interests, sharpen the relationship between pay and performance, simplify arrangements by removing a disconnect between senior executive and senior management long term incentives and reinforce achievement of the Company's new strategic roadmap. It is also proposed that the existing shareholding guidelines will be amended. Ben Gordon, the chief executive, will now be expected to build up a shareholding equal to twice his basic salary, other executive directors a shareholding of once times salary and executive committee members half salary.

A summary of the principal terms of the Mothercare 2006 Performance Share Plan and the Mothercare 2006 Executive Incentive Plan is contained in Appendix 2 to this letter.

Resolution 14 will give authority and flexibility to establish plans comparable to the Mothercare 2006 Performance Share Plan and the Mothercare 2006 Executive Incentive Plan for employees working outside the UK, should the board wish to do so in the future.

Recommendation

The directors believe that the resolutions to be proposed at the AGM are in the best interests of the Company and the shareholders as a whole. The directors therefore recommend shareholders to vote in favour of the resolutions, as they intend to do in respect of their own beneficial shareholdings representing approximately 0.66 per cent of the existing issued share capital of the Company.

Yours sincerely



Ian Peacock
Chairman

Appendix 1

Principal differences between the Existing Articles and the New Articles

The principal differences between the Existing Articles and the New Articles are set out below in three sections: general amendments; additions to the Existing Articles; and deletions from the Existing Articles.

1 General amendments

1.1 Electronic Communications

The Companies Act 1985 (Electronic Communications) Order 2000 (the 'Order') came into force on 22 December 2000. Although no changes to a company's articles are required by the Order, it is the recommended best practice of the Institute of Chartered Secretaries and Administrators that companies should take steps to amend their articles to reflect the provisions of the Order as soon as is practicable.

Although a company may have the benefit of certain provisions of the Order (notwithstanding any provision to the contrary in its articles), the board considers that it is preferable to expressly incorporate relevant provisions into the Company's articles, so as to avoid any inconsistencies or anomalies and give the Company the maximum flexibility to make use of electronic communications.

The New Articles therefore incorporate all the recommended provisions of the Order, including the electronic appointment of proxies, the ability for the Company to send notices and documents to shareholders electronically and to post notices on its website. The interpretation section of the New Articles also contains a number of definitions relevant to electronic communications.

Consent from individual shareholders to receive certain communications electronically would need to be obtained before the Company could implement the new provisions. As such, there would be no automatic change to the way that the Company communicates with shareholders simply by virtue of adopting the New Articles.

1.2 CREST

The Uncertificated Securities Regulations 2001 (the '2001 Regulations') provide that CRESTCo is obliged to maintain a record of uncertificated shares on an 'operator register'. It is this register and not the original company register of shares that will now be open to inspection in respect of uncertificated securities (although the Company is obliged to reconcile the entries on the company register with the entry on the operator register regularly). The New Articles contain provisions relating to the operator register and permit the Company to implement a system that would

allow members to appoint and instruct a proxy by electronic means.

The parts of the New Articles that relate to shares, certificates and the transfer of shares are phrased to reflect the provisions of the 2001 Regulations. The interpretation section also includes a number of definitions required for electronic settlement provisions pursuant to the 2001 Regulations.

1.3 Borrowing powers (Article 102)

Pursuant to New Article 102, the directors will still be required to limit the total borrowings of the Company to two times the sum of the adjusted capital of the Company and reserves of the Company and its subsidiaries (together the 'group') as shown in the last balance sheet, and adjusted as described below. New Article 102 (C)(ii) provides that, for the purposes of these calculations, the group includes all undertakings which are included in the consolidated group accounts containing the relevant balance sheet, as well as those not included in the consolidated group accounts containing the relevant balance sheet but which would be included if group accounts were prepared at the relevant time (as if that time were the end of the Company's financial year). The New Articles (i) clarify that the property and assets that may be mortgaged or charged includes both present and future property; and (ii) explain the purposes for which debentures or securities may be issued (ie either outright or as collateral).

When calculating the amount of capital and reserves under the New Articles, the directors must adjust the capital and reserves shown in the relevant balance sheet to take into account all changes of circumstances since the balance sheet date (and not just changes to share capital and reserves as provided for in the Existing Articles).

The New Articles slightly alter the definition of 'moneys borrowed'. Such amount is now deemed to include (i) the nominal amount and amount of any premium of any allotted share capital (not being equity share capital) of a group undertaking other than the Company not beneficially owned by another group undertaking; (ii) any amount raised by acceptance under an acceptance credit facility; (iii) the amount of liabilities in respect of leases or hire purchase contracts treated as finance or capital leases under UK Generally Accepted Accounting Principles; (iv) the amount of liabilities in respect of a purchase price for assets or services the payment of which is deferred for more than 90 days; and (v) amounts raised under other transactions having the commercial effect of a borrowing.

Pursuant to the New Articles, the directors shall not be treated as exceeding the borrowing powers if they have relied on a bona fide estimate of moneys borrowed and the amount of adjusted capital and reserves and any inadvertent breach is rectified within 90 days.

1.4 Treasury Shares

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the 'Regulations') permit the Company to purchase its own shares and, rather than cancel those shares, to hold them in treasury. The New Articles reflect the requirements of the Regulations and Company law, to the effect that any such shares would carry no voting rights and no entitlement to any dividend for so long as they are held in treasury.

1.5 Allotment (Article 4)

The New Articles include a general authority to allot equity securities pursuant to section 80 of the Companies Act 1985 (the 'Act' and, together with all statutes and subordinate legislation made thereunder, the 'Acts') as well as a general power to disapply the pre-emption rights provisions of section 89 of the Act. The Existing Articles do not contain such provisions: currently, section 80 authorities and powers to disapply section 89 are granted by detailed resolutions at each annual general meeting ('AGM').

Although the section 80 authority and the section 89 disapplication power contained in the New Articles survive for up to five years (as is now permitted by the UKLA and the IPCs), the Company intends to follow best practice by renewing the authorities annually. By including the detailed language relating both to allotment and the disapplication of pre-emption rights in the New Articles, the Company will be able to use much simplified renewal resolutions at subsequent AGMs.

1.6 Forfeiture and lien

Existing Articles 22 to 31 set out the Company's rights of lien and forfeiture in respect of its shares. The New Articles separate the Company's rights into two sections: New Articles 13 to 15 cover rights of lien and New Articles 21 to 26 cover forfeiture rights. Although the form of the New Articles is slightly different, the Company's rights in respect of lien and forfeiture are not materially different.

1.7 Extended definitions section

A number of definitions have been added and certain definitions have been altered to conform with the New Articles. This will assist with the interpretation of the New Articles and ensure consistency throughout.

2 Principal additions to the Existing Articles

This section describes the provisions of the New Articles which either: (i) do not have an equivalent in the Existing Articles; or (ii) have terms which are materially different from those of the corresponding provisions of the Existing Articles.

2.1 Interest on calls (Article 18)

Article 18 permits the board to waive payment of interest on calls in whole or in part. No such permission is given by the equivalent Existing Article 19.

2.2 Fees on registration (Article 31)

Article 31 gives the Company the option to charge a fee for registering the transfer of a share however, it is the Company's intention to only charge a registration fee in exceptional circumstances.

2.3 Postponement of general meetings (Article 45)

Article 45 empowers the board to postpone general meetings if it considers it to be impractical or unreasonable to hold the meeting at the time or place specified in the notice of meeting.

2.4 Special business (Article 46)

Article 46 defines all business transacted at general meetings as special business subject to certain specific exclusions in respect of business transacted at AGMs. The exceptions to special business now include, amongst others, the receipt and consideration of the directors' remuneration report.

2.5 Right to attend and speak (Article 50)

Article 50 (B) allows the chairman to invite any person to attend and speak at a general meeting where he considers that it will assist in the deliberations of the meeting.

2.6 Objections to and error in voting (Article 65)

Article 65 describes the circumstances in which objections may be made to the qualification of a voter or to the counting of, or failure to count a vote at a general meeting of the Company. The article provides that where an objection has been properly made, it only invalidates the decision if, in the opinion of the chairman, it is of sufficient magnitude to affect the decision of the meeting.

2.7 Amendments to resolutions (Article 66)

Article 66 states that no amendment to a resolution duly proposed as a special or extraordinary resolution (other than an amendment to correct a patent error) may be considered or voted on. The article also describes the limited situations in which amendments to ordinary resolutions may be considered or voted on.

Appendix 1 continued

2.8 Members' written resolutions (Article 67)

Article 67 confirms that resolutions in writing executed by or on behalf of each member who would have been entitled to vote upon it if it had been proposed at a general meeting at which the member was present shall be as effective as if it had been passed at a general meeting duly convened and held.

2.9 Failure to disclose interests in shares (Article 69)

In its effect, Article 69 mirrors certain aspects of Existing Article 76. However, Article 69 uses different terminology and has been drafted to satisfy the requirements of the Listing Rules. Article 69 permits sanctions to be imposed on members (or other persons appearing to be interested in shares held by that member) who fail to comply with a disclosure notice issued under section 212 of the Act. The sanctions include denial of voting rights and dividends.

2.10 Number of directors (Article 70)

The Institutional Shareholders' Committee recommends that a company's articles should contain a maximum number of directors as a matter of good practice. Accordingly, Article 70 provides for a maximum of 12 directors.

2.11 Agreements or arrangements with directors (Article 73 (B))

Article 73 (B) states that the board may enter into an agreement or arrangement with a director for the provision of services that are outside the ordinary scope of the director's duties, on such terms and remuneration as the board thinks fit. This might cover, for example, agreements entered into with individual directors for consultancy services.

2.12 Retirement by rotation (Article 76)

The New Articles include provisions to comply with the Combined Code on Corporate Governance such that:

- (i) when a non-executive director (apart from the chairman) has served as a director for more than eight years he must retire from office, and may offer himself for reappointment, at each subsequent AGM; and
- (ii) a director must retire from office, and may offer himself for reappointment, at the third AGM following his appointment or his later reappointment by shareholders at an AGM.

2.13 Removal by ordinary resolution (Article 81)

Article 81 provides that the Company may remove a director before the expiry of his period of office by passing an ordinary resolution. Conversely, Existing Article 116 requires the Company to pass an extraordinary resolution for such removal.

2.14 Appointment of alternate directors (Article 83)

Pursuant to Article 83 (A), an appointment of a person as an alternate director who is not already a director is not effective until that person has given his consent to act as a director. Conversely, Existing Article 88 provides that the appointment of a person as an alternate director who is not already a director is conditional on the approval of two-thirds of the board.

2.15 Directors' fees (Article 87)

The Existing Articles provide for an individual cap of £60,000 per annum on director's fees. The Association of British Insurers recommends an aggregate cap on directors' fees. Accordingly, Article 87 (A) sets the aggregate cap at £750,000 per annum, based on the maximum number of 12 directors as set out in New Article 70, to be divided among the directors in such proportion as the board decides or, if no decision is made, equally. The article allows the Company to increase the aggregate cap by ordinary resolution. Article 87 (B) expressly permits the board to arrange for part of a fee payable to a director to be provided in the form of fully-paid shares in the Company.

2.16 Associate directors (Article 98)

Article 98 allows the board to appoint a person (not being a director) to an office or to employ a person having a designation or title including the word 'director', without implying that the person is, or is deemed to be, or is empowered to act as, a director.

2.17 Provision for employees (Article 100)

Article 100 empowers the board to make provisions for the benefit of employees and former employees. Conversely, Existing Article 158 requires a special resolution of the Company to authorise such provisions. New Article 100 conforms with market practice by giving the decision to the board.

2.18 Directors' interests (Article 104)

Article 104 confirms that the Company may, by ordinary resolution, suspend or relax the provisions relating to the disclosure of directors' interests and may ratify any contract or proposal not properly authorised by reason of non-disclosure of directors' interests.

2.19 Participation by telephone (Article 110)

Article 110 confirms that directors and their alternates may participate in board meetings via telephone or video teleconference provided that all participants are able to hear and speak to each other throughout the meeting.

2.20 Entitlement to dividends (Article 122 (B))

Article 122 (B) permits the declaration or payment of dividends in any currency. This article allows the board to agree with any member that dividends due in one currency may be paid in another (at such rate of conversion and in such manner as the board and relevant members may agree).

2.21 Uncashed dividends (Article 127)

Article 127 clarifies that if dividend payments are uncashed or not accepted and the Company has made reasonable enquiries but has failed to establish an alternative address or account of the person entitled to the payment, the Company is not obliged to make the payment until the person notifies the Company of an address or account to be used.

2.22 Accounts to be sent to members etc (Article 133)

Article 133 (A) includes the Company's annual accounts, the directors' report, the directors' remuneration report and the auditors' report on those accounts and on the auditable part of the directors' remuneration report as the documents to be sent to members at the end of the financial year. Article 133 (C) also provides that where permitted by the Acts, a summary financial statement derived from such documents may be sent to members in place of the documents themselves.

2.23 Notice by advertisement (Article 136)

Article 136 provides that if, due to the suspension or curtailment of postal services, the Company is unable to convene a general meeting by notices sent by post to members who have not given the Company an address for electronic communication, the board may convene a general meeting by a notice advertised in at least one national newspaper.

2.24 Directors' indemnity (Article 142)

The Companies (Audit, Investigations and Community Enterprise) Act 2004 has extended the scope of the indemnity provisions which companies are permitted to provide for the benefit of directors and other officers. The New Articles reflect the new provisions introduced into the Companies Act 1985 by that legislation through the incorporation of a wide, mandatory directors' indemnity (plus a discretionary power to fund directors' defence costs). Article 142 reflects the form of indemnity which has already been adopted by a number of leading, listed PLCs.

The equivalent provision of the Existing Articles (Article 159) extended the indemnity to the Company's auditors. Conversely and in accordance with the new law, New Article

142 expressly excludes auditors from the scope of such indemnity (although the Company is still able to obtain directors and officers' insurance for them).

3 Principal deletions from the Existing Articles

3.1 Stock

The provisions in the Existing Articles relating to stock (Articles 44 to 47) are somewhat outdated on the basis that the historic advantages of holding stock (rather than shares) in a company are no longer relevant. Equivalent provisions relating to stock have not been included in the New Articles.

3.2 Schemes of arrangement

Existing Article 50 (A) relates to schemes of arrangement which are a type of capital reduction. As the provisions of the article are covered by law and an express authority for this type of capital reduction is not required, an equivalent article is not included in the New Articles.

3.3 Close companies

Existing Article 100 relates to obtaining information from corporate members as to whether such corporate member is a close company for the purpose of the Finance Act 1972. The provision is obsolete and therefore no equivalent provision is retained in the New Articles.

3.4 President

Existing Article 101 permits the appointment of a President of the Company. This is an outdated concept and therefore an equivalent provision is not retained in the New Articles.

3.5 Local management

Existing Article 102 provides for the establishment of local boards. Although the New Articles do not explicitly provide for local boards, New Article 96 (Delegation to committees) contains wide scope for the delegation and sub-delegation of board powers.

Copies of the Existing Articles and the New Articles will be available for inspection at the Company's registered office and at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ during normal business hours on each day (Saturdays, Sundays and public holidays excepted) from the date of posting this document until the conclusion of the AGM, and also at the place of the AGM for at least 15 minutes prior to and during the meeting.

Copies of the New Articles are also available on the Company's website at www.mothercare.com, and will be sent to shareholders by the company secretary (Clive Revett) upon written request sent to the Company's registered office.

Appendix 2

Summary of the Mothercare 2006 Performance Share Plan and Mothercare 2006 Executive Incentive Plan (the 'New Share Schemes')

The Mothercare 2006 Performance Share Plan (the 'PSP')

Set out below is a summary of the rules of the PSP proposed to be adopted by the Company.

Eligibility

Awards may be granted to executives of Mothercare (including executive directors) and its subsidiary companies (the 'participant') who are selected by the Company's remuneration committee (the 'Remuneration Committee'). It is currently intended that participation will be limited to approximately 40 executives.

Grant of awards

Awards may normally only be granted in the six weeks beginning on the date which the PSP is approved and adopted by the Company, and thereafter in the six week period following the announcement by the Company of its results for any period. Awards may be granted outside these periods in exceptional circumstances.

Subject to shareholder approval of the PSP, it is proposed that the first awards will be granted in 2006. No awards may be granted more than ten years after the adoption of the PSP. Awards are personal to participants and may not be transferred except on death. Awards are not pensionable.

Awards may be made in several forms, as determined by the Remuneration Committee at the date of grant in the light of, for example, accounting and tax consequences. These include: (i) a contingent right to acquire shares at no cost; (ii) a nil or nominal priced option; (iii) a gift of shares forfeitable in the event that specified conditions are not met; or (iv) such other form as has substantially the same economic effect.

Individual limit

The initial value of an award granted in any one financial year will be determined by the Remuneration Committee. The rules permit annual awards up to a maximum of 100 per cent of basic salary in normal circumstances with the Remuneration Committee retaining a discretion to allow awards of up to a maximum of 200 per cent of salary in exceptional circumstances for the purpose of recruitment or retention.

The number of shares which are the subject of the award will be calculated by dividing the value of the award by the average middle market quotations of the Company's ordinary shares on the London Stock Exchange over the five dealing days prior to the date of the award.

Overall limits

The PSP contains the following limits on the issue of the Company's shares:

- (i) in any ten year period, the number of the Company's unissued shares that may be issued or placed under option or award under the PSP, and under any other executive share scheme established by the Company may not exceed 5 per cent, of the issued ordinary share capital of the Company from time to time; and
- (ii) in any ten year period, the number of the Company's unissued shares which may be issued or placed under option or award under the PSP, and under any employees' share scheme established by the Company may not exceed 10 per cent of the issued ordinary share capital of the Company from time to time.

Shares may be transferred out of treasury to satisfy awards under the PSP, but any shares so transferred will be treated as issued for the purposes of the limits in (i) and (ii) above, unless institutional shareholder guidelines are amended so that this is no longer required. The PSP may also operate in conjunction with Mothercare's existing employee benefit trust.

Performance condition

The PSP provides that the performance condition shall be as set out below, unless the Remuneration Committee determines that another condition shall apply. The proportion of the award, if any, that an executive will ultimately receive will depend upon the Company's performance during a three-year period commencing at the beginning of the financial year in which the award is made (the 'performance period').

Performance will be measured by reference to the aggregate growth in the Company's profit before tax ('PBT') over the performance period. PBT will be calculated in accordance with the Company's normal accounting principles and will be adjusted on a per share basis for any share-based transactions. The Remuneration Committee will have a discretion to make adjustments for one-off exceptional items or items unusual in nature.

No shares will vest if the aggregate growth in the Company's PBT is less than 5 per cent per annum. At 5 per cent per annum, 20 per cent of the shares that are the subject of the award will vest, rising on a straight-line basis to 100 per cent vesting for aggregated PBT growth of 15 per cent per annum and above. In addition to this PBT growth condition, shares will only become eligible for release to the extent that the Remuneration Committee is satisfied that this is justified by the underlying financial performance of the Company over the performance period.

Timing of release

Shares will not normally be released until the third anniversary of the award date.

Entitlement to dividends

To the extent that an award vests at the end of the performance period, the Remuneration Committee may decide that a cash amount, equivalent to the dividends that would have been paid on the vested shares between the dates of grant and vesting, will be paid to participants when the shares are released. Alternatively, the Remuneration Committee may decide that the number of shares comprised in an award will increase by deeming dividends that would have been paid on the vested shares between the dates of grant and vesting to have been reinvested in additional shares.

Forfeiture

In principle, a participant who leaves the Company's service before the release date will forfeit any awards then held by him.

Cessation of employment

If a participant ceases employment before an award vests, the following provisions shall apply.

If the participant ceases employment by reason of death, his award will vest immediately based on the Remuneration Committee's assessment of the Company's performance and on the basis that the number of shares in respect of which an award may vest early shall be reduced proportionately on a time basis, unless the Remuneration Committee decides otherwise.

If the participant ceases employment due to ill-health, permanent disability, retirement with the agreement of the employer, redundancy or by reason of his employment being with a company or business which is transferred out of the

Mothercare group, or for any other reason at the discretion of the Remuneration Committee, the award will vest three years after grant to the extent that the performance conditions have been met over the performance period. The number of shares in respect of which an award may vest shall be reduced proportionately on a time basis, unless the Remuneration Committee decides otherwise. In these circumstances, the Remuneration Committee may also allow awards to vest before their third anniversary of grant based on the Remuneration Committee's assessment of the Company's performance and on the basis that the number of shares in respect of which an award may vest early shall be reduced proportionately on a time basis, unless the Remuneration Committee decides otherwise.

Change of control

In the event of a takeover, reconstruction or winding-up of the Company, shares may be released early on the basis of performance up to the event in question, but with the number of shares in respect of which an award may vest being reduced proportionately on a time basis. The Remuneration Committee has a discretion to vary the number of shares that vest on this basis if it considers it to be appropriate to do so. An internal organisation does not count as a change of control for these purposes.

Variation of capital

In the event of a variation of share capital, the Remuneration Committee may make such adjustments to the number of shares subject to an award as it considers appropriate.

Alterations

The Remuneration Committee has the right to alter the rules of the PSP. The prior approval of the Company in general meeting must be obtained in the case of any amendment to the advantage of participants which is made to the provisions relating to eligibility, limits, variations of capital, the maximum entitlement for any one participant and the basis for determining a participant's entitlement to shares. However, any minor amendment to benefit the administration of the PSP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or any member of the Mothercare group, may be made without prior approval of the Company in general meeting. Any amendment that is to the disadvantage of participants requires their majority consent.

Appendix 2 continued

The Mothercare 2006 Executive Incentive Plan (the 'EIP')

Set out below is a summary of the rules of the EIP proposed to be adopted by the Company.

Eligibility

Awards may be granted to executives of Mothercare (including executive directors) and its subsidiary companies who are selected by the Remuneration Committee. In practice, it is currently intended that participation will be limited to executive directors and other members of the executive committee.

Grant of awards

Awards may normally only be granted in the six weeks beginning with the date on which the EIP is approved and adopted by the Company, and thereafter in the six week period following the announcement by the Company of its results for any period. Awards may be granted outside these periods in exceptional circumstances.

Subject to shareholder approval of the EIP, it is proposed that the first awards will be granted in 2006. No awards may be granted more than ten years after the adoption of the EIP. Awards are personal to participants and may not be transferred except on death. Awards are not pensionable.

Awards will entitle participants to receive a cash bonus (the 'Bonus') on the third anniversary of grant to the extent that specified performance conditions have been satisfied. If a participant becomes entitled to receive a Bonus, the Remuneration Committee will have discretion to defer up to 50 per cent of that Bonus into a share award (a 'Share Award') which would vest on the fourth anniversary of the grant of the original Award.

A Share Award may be made in several forms, as determined by the Remuneration Committee at the date of grant of the Share Award in the light, for example, of accounting and tax consequences. These include: (i) a contingent right to acquire shares at no cost; (ii) a nil or nominal priced option; (iii) a gift of shares forfeitable in the event that specified conditions are not met; or (iv) such other form as has substantially the same economic effect.

Performance condition

The EIP provides that the performance condition shall be as set out below, unless the Remuneration Committee determines that another condition shall apply. The Bonus actually received by

an executive will depend upon the Company's performance during a three-year period commencing at the beginning of the financial year in which the award is made (the 'performance period').

Performance will be measured by comparing the Total Shareholder Return ('TSR') achieved by the Company with the percentage increase in the FTSE All-Share General Retailers Index (the 'Index') over the performance period. If the Company's TSR is equal to or less than the increase in the Index, participants will not be entitled to receive a Bonus. If the Company's TSR exceeds the increase in the Index, participants will be entitled to receive a Bonus. In these circumstances, the Remuneration Committee will calculate a 'Surplus Value' figure, being the positive difference between the Company's TSR and the increase in the Index, expressed as a monetary value. The Bonus to which a participant is entitled will be a percentage of the Surplus Value figure. That percentage will be specified at the time that awards are granted.

For the initial grant of awards, the percentage of the Surplus Value shall be calculated as follows:

Surplus Value	% of Surplus Value to which participant entitled		
	Chief executive	Finance director	Other executive committee (in aggregate)
£0m – £50m	1.0%	0.4%	1.0%
£50m – £75m	1.5% ¹	0.6% ¹	1.5% ¹
Above £75m	2.0% ²	0.8% ²	2.0% ²

1. Percentage applies only above £50 million.

2. Percentage applies only above £75 million.

In addition to the above, participants will only be entitled to receive a Bonus if the Remuneration Committee is satisfied that this is justified by the underlying financial performance of the Company over the performance period.

Individual limit

The maximum award to be granted to any individual in any one financial year will be determined by the Remuneration Committee. The rules permit individual annual awards to be granted up to a maximum of 2 per cent of Surplus Value in normal circumstances with the Remuneration Committee retaining a discretion to grant awards of up to a maximum of 2.5 per cent of Surplus Value in exceptional circumstances for the purpose of recruitment or retention.

Overall limits

The rules permit awards to be granted annually up to an aggregate maximum of 5 per cent of Surplus Value attributable to that performance period.

The EIP contains the following limits on the issue of the Company's shares in connection with any Share Awards:

- (i) in any ten year period, the number of the Company's unissued shares that may be issued or placed under option or award under the EIP and under any other executive share scheme established by the Company may not exceed 5 per cent of the issued ordinary share capital of the Company from time to time; and
- (ii) in any ten year period, the number of the Company's unissued shares which may be issued or placed under option or award under the EIP and under any employees' share scheme established by the Company may not exceed 10 per cent of the issued ordinary share capital of the Company from time to time.

Shares may be transferred out of treasury to satisfy Share Awards under the EIP, but any shares so transferred will be treated as issued for the purposes of the limits in (i) and (ii) above, unless institutional shareholder guidelines are amended so that this is no longer required. The EIP may also operate in conjunction with Mothercare's existing employee benefit trust.

Cessation of employment

If a participant ceases employment before he becomes entitled to receive a Bonus, the following provisions shall apply.

If the participant ceases employment by reason of death, his Bonus will be paid to his personal representatives as soon as practicable based on the Remuneration Committee's assessment of the Company's performance up to the date of death, unless the Remuneration Committee decides otherwise.

If the participant ceases employment due to ill-health, permanent disability, retirement with the agreement of the employer, redundancy or by reason of his employment being with a company or business which is transferred out of the Mothercare group, or for any other reason at the discretion of the Remuneration Committee, the Bonus will be payable three years after grant of the award to the extent that the performance conditions have been met over the performance

period. The Remuneration Committee may also pay Bonuses before the third anniversary of the grant of the award based on performance up to the date of leaving.

If a participant has been granted a Share Award and he ceases employment before the Share Award vests, the Share Award shall vest immediately on his ceasing employment unless the participant has ceased employment due to resignation or summary dismissal in which case he shall forfeit his Share Award.

Change of control

In the event of a takeover, reconstruction or winding-up of the Company, Bonuses may be paid early on the basis of performance up to the event in question. The Remuneration Committee has a discretion to vary the amount of the Bonus if it considers it to be appropriate to do so. An internal reorganisation does not count as a change of control for these purposes.

Variation of capital

In the event of a variation of share capital, the Remuneration Committee may make such adjustments to the number of shares subject to a Share Award as it considers appropriate.

Alterations

The Remuneration Committee has the right to alter the rules of the EIP. The prior approval of the Company in general meeting must be obtained in the case of any amendment to the advantage of participants which is made to the provisions relating to eligibility, limits, variations of capital, the maximum entitlement for any one participant and the basis for determining a participant's entitlement. However, any minor amendment to benefit the administration of the EIP or to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or any member of the Mothercare group may be made without prior approval of the Company in general meeting. Any amendment that is to the disadvantage of participants requires their majority consent.