

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you should immediately seek your own independent financial advice from your stockbroker, bank manager, solicitor or other independent professional adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising upon investment in shares and other securities if you are resident in the United Kingdom or, if not, from another appropriately authorised financial adviser in your own jurisdiction.

If you sell or have sold or otherwise transferred all of your Shares, please send this document and the accompanying documents as soon as possible to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee. If you sell or have sold or otherwise transferred only part of your holding of Shares, you should retain this document and the accompanying documents.

Your attention is drawn to the letter from the Chairman of Mothercare which is set out on pages 4 to 10 of this document, recommending you to vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting. Your attention is also drawn to the section entitled “Action to be taken” on page 10 of this document.



Mothercare plc

(incorporated and registered in England and Wales under
the Companies Act 1985 with registered no. 01950509)

Proposed Acquisition of Chelsea Stores Holdings Limited and Notice of Extraordinary General Meeting

Notice of an Extraordinary General Meeting of Mothercare to be held at Mothercare, Cherry Tree Road, Watford, Hertfordshire, WD24 6SH at 11.00 a.m. on 14 June 2007, is set out at the end of this document.

Shareholders will find enclosed with this document a pink Form of Proxy for use in connection with the Extraordinary General Meeting. Shareholders are requested to complete and return the Form of Proxy whether or not they intend to be present at the meeting. To be valid, the Form of Proxy should be completed, signed and returned in accordance with the instructions printed thereon, as soon as possible and, in any event, so as to reach Mothercare's registrars, Lloyds TSB Registrars, The Causeway, Worthing, BN99 8UF by no later than 11.00 a.m. on 12 June 2007. Completion and return of a Form of Proxy will not preclude Shareholders from attending and voting at the Extraordinary General Meeting should they choose to do so. Further instructions relating to the Form of Proxy are set out in the EGM notice at the end of this document.

Capitalised terms have the meanings ascribed to them in Part VI (Definitions) of this document.

Citigroup Global Markets Limited (“Citi”), which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for Mothercare and no one else in connection with the Proposed Acquisition, the Company's offer of New Mothercare Shares to the CSHL Shareholders as consideration for the Proposed Acquisition (“CSHL Offer”) and Admission and will not regard any other person as its client in relation to the Proposed Acquisition, the CSHL Offer and Admission and will not be responsible to anyone other than Mothercare for providing the protections afforded to clients of Citi, or for providing advice in relation to the Proposed Acquisition and Admission or any transaction or arrangement referred to in this document.

FORWARD-LOOKING STATEMENTS

Some of the statements under Part I: Letter from the Chairman of Mothercare plc, Part II: Risk Factors, Part III: Information on the CSHL Group and information incorporated by reference from the Prospectus and elsewhere in this document include forward-looking statements which reflect the Enlarged Mothercare Group's or, as appropriate, the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Enlarged Mothercare Group's products and services). These statements include forward-looking statements with respect to the Enlarged Mothercare Group. Statements which include the words "expects", "intends", "plans", "believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could", "continue" and similar statements of a future or forward looking nature identify forward looking statements for purposes of the US federal securities laws or otherwise.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Enlarged Mothercare Group's actual results to differ materially from those indicated in these statements. These factors include those described in the part of this document entitled "Risk Factors" which are known to Mothercare at the date of this document, but may include other factors which arise in the future and are not known, or not considered to be material, at such date. The part of this document entitled "Risk Factors" should be read in conjunction with the other cautionary statements that are included in this document. Any forward looking statements in this document reflect the Mothercare Group's current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Enlarged Mothercare Group's operations, results of operations, growth strategy and liquidity.

These forward-looking statements speak only as of the date of this document. Subject to any obligations under the Prospectus Rules, the disclosure rules made by the FSA under Part VI of FSMA and the listing rules made by the FSA under Part VI of FSMA (the "**Listing Rules**") and save as required by law, the Company undertakes no obligation to publicly update or review any forward looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Mothercare Group or individuals acting on behalf of the Mothercare Group are expressly qualified in their entirety by this paragraph.

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TIMETABLE

Latest time and date for receipt of Forms of Proxy for the EGM	11.00 a.m. on 12 June 2007
Record Date for attending and voting at EGM	6.00 p.m. on 12 June 2007
Extraordinary General Meeting	11.00 a.m. on 14 June 2007

Notes

- (1) All references to times in this document are to UK time.
- (2) If any of the above times and/or dates should change, the revised times and/or dates will be notified to Shareholders by an announcement on a Regulatory Information Service and otherwise in accordance with the Articles of Association.

PART I
LETTER FROM THE CHAIRMAN OF MOTHERCARE PLC



(Incorporated in England and Wales under the Companies Act 1985 with registered number 01950509)

Directors:

Ian Peacock (Chairman)
Karren Brady (Non-Executive Director)
Bernard Cragg (Senior Independent Director)
Ben Gordon (Chief Executive)
Neil Harrington (Finance Director)
David Williams (Non-Executive Director)

Registered office:

Mothercare plc
Cherry Tree Road
Watford
Hertfordshire WD24 6SH

25 May 2007

Dear Shareholder

PROPOSED ACQUISITION OF CSHL

Introduction

On 28 April 2007, the Directors announced that they had agreed terms for the Proposed Acquisition of CSHL, which owns and operates the Early Learning Centre, for a total consideration of £85 million (valued as at 18 March 2007, the date when Mothercare announced it was in discussions with CSHL regarding the Proposed Acquisition).

Due to its size, the Proposed Acquisition requires the approval of Shareholders at an extraordinary general meeting under the applicable provisions of the Listing Rules. The Acquisition is conditional upon, amongst other things, the passing of the Resolutions.

The purpose of this document is to provide you with details of the Proposed Acquisition and explain why your Board believes the Proposed Acquisition and the Resolutions are in the best interests of Shareholders as a whole and to seek your approval of them. Notice convening an Extraordinary General Meeting at which Shareholder approval will be sought is set out at the end of this document.

Consideration

The total consideration will be payable in the form of New Mothercare Shares and the assumption by Mothercare of the CSHL Group's net debt on completion of the Proposed Acquisition.

The valuation of the CSHL Group's net debt, including the Directors' estimate of certain liabilities that will become due on the completion of the Proposed Acquisition, was estimated to be approximately £36 million, based on CSHL's estimated consolidated monthly period end average net debt for the 52 weeks ended 5 May 2007 (excluding loans from DCT which will be converted to equity in CSHL prior to completion of the Proposed Acquisition).

The agreed valuation of the New Mothercare Shares to be issued as consideration, of approximately £49 million was based on a Mothercare share price of 361.45 pence, on 18 March 2007, being the average of the Closing Price of a Share in the five dealing days prior to 18 March 2007, the date when Mothercare announced that it was in discussions with CSHL regarding the Proposed Acquisition. As a result of the rise in the Mothercare share price between 18 March 2007 and the announcement of the Proposed Acquisition on 28 April 2007, based on the Closing Price of a Share on 27 April 2007 of 406.25 pence, the value of the New Mothercare Shares to be issued as consideration was approximately £55 million, bringing the total

consideration to approximately £91 million. Since the announcement of the Proposed Acquisition, Mothercare's share price has continued to rise and, based on the Closing Price of a Share on 23 May 2007 of 417 pence (the latest practicable date before the date of this document), the value of the New Mothercare Shares to be issued as consideration would be approximately £58 million, valuing the total consideration at approximately £94 million. On completion of the Proposed Acquisition, the CSHL Shareholders will own approximately 16 per cent. of the then issued Shares.

Background to, and reasons for, the Proposed Acquisition

Over the last four years, Mothercare has undergone a period of significant turnaround which has restored shareholder value and laid the foundations for longer term growth. Over this period, management has focused on driving sales and profit growth through the expansion of Mothercare's international franchise operations and its Direct business, streamlining its UK logistics infrastructure, developing its international supply chain and optimising its UK store portfolio. Since the start of the programme, the Mothercare Group has moved from a pre-tax loss of £24.8 million (under UK GAAP) for the 2003 Financial Year, to a pre-tax profit of £18.9 million (under IFRS) for the 2007 Financial Year, and the Mothercare Group's total revenues have increased by 15 per cent. over the same period.

Having stabilised its business, Mothercare is pursuing a strategy aimed at delivering sustainable earnings growth and value for Shareholders. Whilst the focus of its strategy has been primarily based on organic growth, Mothercare has also considered investment and acquisition opportunities where they would be value enhancing for Shareholders and consistent with Mothercare's strategy.

The Directors have concluded that the Proposed Acquisition represents a strategic opportunity for Mothercare to increase the reach of its UK, international and Direct operations and to capitalise on the cross-selling benefits of having complementary brands and customer bases, whilst also benefiting from cost efficiencies.

Benefits of the Proposed Acquisition

Following the Proposed Acquisition, Mothercare will own two brands closely associated with children and parenting. The Directors believe both brands carry with them a reputation for specialism, quality, safety and innovation. Furthermore, with complementary target customers and product offerings, the Directors believe that the brands will fit naturally together.

Product mix

Toys currently represent approximately 10 per cent. of Mothercare's UK business. As a result of the Proposed Acquisition, the product mix of the Enlarged Mothercare Group will change with toys, home & travel and clothing each representing about one third of the Enlarged Mothercare Group's UK business.

Integration costs

Mothercare has developed detailed plans for the integration of CSHL into the Mothercare Group. Based on these plans the Directors expect the Enlarged Mothercare Group to deliver annual pre-tax synergies of at least £8 million in the second full financial year after the date of completion of the Proposed Acquisition.

Mothercare estimates that the exceptional integration costs associated with the Proposed Acquisition will total £9 million, the majority of which will be incurred during the 2008 Financial Year and the 2009 Financial Year. These amounts exclude costs associated with store optimisation, which will be estimated following the completion of store optimisation trials.

Mothercare intends to invest a further estimated £5 million in capital expenditure in relation to the integration of the two businesses. The majority of this investment will be made during the period to the end of the 2009 Financial Year. It is expected that further significant investments will be made, over the next three years, in optimising the store portfolio of the Enlarged Mothercare Group. The amount of such investments will be estimated following completion of the store optimisation trials.

Synergies

The Proposed Acquisition is expected to deliver synergies and benefits for the Enlarged Mothercare Group, in particular:

- optimising the enlarged UK store portfolio;
- international expansion;
- buying and sourcing opportunities;
- Direct and cross-marketing opportunities; and
- cost efficiencies.

Optimising the enlarged UK store portfolio

As at 27 April 2007, Mothercare operated from 225 stores and ELC operated from 210 stores in the UK. Bringing together the two businesses' different strengths in the toy product category and, more generally, combining Mothercare's home & travel and clothing product categories with ELC's more extensive toys offering, will provide customers with a broader range of products and present the Enlarged Mothercare Group with a number of cross-marketing opportunities.

The combination of Mothercare and ELC stores in the UK will provide additional geographical reach for both brands. There is potential for the Enlarged Mothercare Group to reach additional catchment areas where either one or the other brand is not currently represented.

ELC currently has limited out-of-town store presence. Subject to successful trialling, Mothercare expects it to be possible to place ELC inserts in up to 73 Mothercare out-of-town stores, thereby giving ELC increased access to the out-of-town market. Mothercare expects that the ELC inserts will improve sales densities in its stores. There is also the opportunity to extend the reach of both brands through the enlarged store portfolio, for example, with the use of the web-in-store capability across all stores.

Mothercare intends to optimise the store portfolio of the Enlarged Mothercare Group, particularly in the catchments where both brands are currently located.

International expansion

Based on figures as at 27 April 2007, the Enlarged Mothercare Group would include 420 international franchise stores (comprising 331 Mothercare international franchise stores and 89 CSHL international franchise stores).

Mothercare currently has franchise operations in 24 countries without an ELC presence and ELC has franchise operations in one country where there is no Mothercare presence. In line with Mothercare's international growth strategy, management intends to work with the franchisees of the Enlarged Mothercare Group to explore the opportunities to open additional international stores, both standalone and combined stores, and extend the global reach of both brands.

Buying and sourcing opportunities

The Directors believe that margin benefits will arise through increased purchasing volumes in the UK and overseas and improved sourcing and in-house design capabilities.

ELC has a sourcing office in Hong Kong and Mothercare expects that the Enlarged Mothercare Group will be able to use this sourcing capability to improve Mothercare's toys and home & travel business.

Direct and cross-marketing opportunities

Mothercare and ELC both have growing internet businesses and well-established catalogue businesses. Combined they account for approximately £60 million annual turnover, generate annually 18 million hits to the websites and distribute approximately six million catalogues.

Synergy benefits are expected from linking the Mothercare and ELC websites, utilising combined databases, cross-marketing activities and catalogue production. Logistics synergies are expected from combining warehousing and call centres.

Cost efficiencies

The highly complementary nature of the two businesses is expected to give rise to efficiency improvements and cost savings through the rationalisation of certain central functions and supply and distribution activities, particularly in the UK.

Integration of CSHL

Mothercare has developed a detailed integration plan covering both businesses which is designed to allow the benefits of the merger of the Mothercare and ELC businesses to be realised over three years.

It is intended that the Enlarged Mothercare Group will continue to use both the “Mothercare” and “ELC” brands. In the opinion of Mothercare, the two brands have strong brand recognition and complement each other. As a result, the integration plan will focus on combining the operational structures of the two groups in order to support and enhance both brands.

The integration activity is being planned in three phases with projects in each of the five main areas being prioritised according to their likely impact and ease of implementation. The first phase covers the period to the end of the 2008 Financial Year, and phases two and three the following two financial years. Integration activities will be planned to ensure minimal distribution during the key pre-Christmas trading period.

Under the first phase, the intention is to focus on integration activities aimed to deliver results in the short-term, such as buying efficiencies, renegotiating contracts on an Enlarged Mothercare Group basis, including utilities, insurance and audit, trialling new store formats, including ELC inserts in Mothercare stores, and planning for international growth with the Enlarged Mothercare Group’s franchise partners.

During the 2009 Financial Year, Mothercare plans to commence a store optimisation plan for the Enlarged Mothercare Group and start to leverage sourcing and cost benefits.

Mothercare intends to continue the store optimisation and rationalisation programme through the financial year ending 27 March 2010. By this time, it is envisaged that integration of the information technology systems and supply chains of the Enlarged Mothercare Group will be in their final stages.

Information on the CSHL Group

The CSHL Group owns and operates ELC, a designer and retailer of toys and other children’s products primarily for the 0 to 6 year age range, primarily for the UK market although with increasing international presence. Approximately 80 per cent. of its toys and games offerings are own brand. As at 27 April 2007, the CSHL Group had 210 stores in the UK branded as ELC, five in Ireland and 89 international franchise stores (including two in the Channel Islands).

The CSHL Group also has a direct internet and catalogue business and operates a small wholesaling business, providing products to domestic and international customers. In addition, the CSHL Group currently has three stores branded as Daisy & Tom, one of which is in the process of being closed. The Daisy & Tom business is currently loss making. On 27 April 2007, the Daisy & Tom brand was transferred to one of CSHL’s current shareholders and it was agreed that the two remaining Daisy & Tom stores will be rebranded as either Mothercare or ELC stores or closed.

CSHL’s business is currently seasonal with nearly half its sales and all its profits being generated in October, November and December.

During the 52-week period ended 6 May 2006, the CSHL Group generated revenues of £186 million, EBITDA of £6 million, Adjusted EBITDA of £10 million, Adjusted EBITA of £5 million and an operating loss before interest and tax of £3 million. For the same period, the CSHL Group reported a loss before tax of £6 million. As at 6 May 2006, the CSHL Group had gross assets of £107 million.

Management and employees

During the 52-week period ended 6 May 2006, the CSHL Group had on average approximately 2,600 employees.

Mothercare views the management and employees of the CSHL Group as key to the success of the Enlarged Mothercare Group. Mothercare plans to work with the CSHL Group management to ensure the smooth integration of the CSHL Group’s business into Mothercare.

The Directors believe that the combination of the Mothercare Group and the CSHL Group will offer both groups of employees exciting career prospects. It is the intention of Mothercare to offer positions in the Enlarged Mothercare Group to the people who are best suited to them, regardless of whether they are currently employed by Mothercare or the CSHL Group, thereby creating a first class management team. Tim Waterstone, the Executive-Chairman, will resign with effect from completion of the Proposed Acquisition and will be paid his contractual entitlements.

Mothercare has agreed to pay certain current employee CSHL Shareholders a bonus of approximately £1 million, in aggregate, if, prior to 27 April 2008, the mean average of the Closing Price of a Share on the three preceding dealing days exceeds 436.45 pence.

Furthermore, following the Proposed Acquisition, the existing statutory employment rights of all employees of the CSHL Group will be fully safeguarded.

Funding of the Proposed Acquisition

It is intended that the CSHL Group's debt will be repaid on completion of the Proposed Acquisition from Mothercare's cash reserves and the partial utilisation of its extended revolving debt facility. In order to accommodate the proposed investment in the Enlarged Mothercare Group and the increased seasonality of the business as a consequence of the Proposed Acquisition, Mothercare has increased and extended its existing revolving debt facility with HSBC Bank plc to £65 million. The extended facility is in place and committed as at the date of this document. Utilisation of the facility is subject to the completion of the Proposed Acquisition and the satisfaction of standard conditions precedent.

Financial effects of the Proposed Acquisition

The Proposed Acquisition is expected to be earnings enhancing in the first full financial year following completion of the Proposed Acquisition, that is, the 2009 Financial Year (in terms of earnings before exceptional items, amortisation of acquisition related intangible assets and the impact of fair value accounting under IAS 39 and any associated tax effect). The statements in this paragraph do not constitute a profit forecast and should not be interpreted to mean that the earnings of Mothercare or earnings per share in the financial year in which the Proposed Acquisition completes, or in any subsequent period, would necessarily be greater than those in the preceding financial year.

An unaudited pro forma statement of net assets of the Enlarged Mothercare Group, prepared in accordance with IFRS, is set out, for illustrative purposes only in "Part 8: Unaudited Pro Forma Statement of Net Assets of the Enlarged Mothercare Group" of the Prospectus.

Dividend policy

The Directors intend to continue to apply a progressive dividend policy which is consistent with the Enlarged Mothercare Group's cash flow requirements and growth prospects, whilst maintaining an appropriate level of dividend cover. It is envisaged that Mothercare will pay an interim dividend in February and a final dividend in August of each year. The current approximate proportions of one third and two thirds, respectively, of the total annual dividend, will be reviewed by the Board in the light of the changed trading seasonality of the Enlarged Mothercare Group.

Current trading and prospects

The Mothercare Group

During the 2007 Financial Year, the Mothercare Group grew like for like sales in the UK and improved margins compared with the 2006 Financial Year. The Mothercare Group increased the number of its international franchise stores by 62 compared with 47 in the 2006 Financial Year. 2007 saw the completion of a number of major projects, including the move to Mothercare's new UK national distribution centre and the launch of its new bespoke e-commerce platform.

The Directors believe that the strength of the Mothercare brand together with the actions Mothercare is taking to improve the specialism, efficiency and reach of its multi-channel business will help Mothercare to continue to grow its business in the UK. The Directors are confident that the UK and international businesses will continue to develop strongly during the current financial year.

The CSHL Group

In the absence of unforeseen circumstances and on the basis outlined below the Directors estimate that, for the 52-week period ended 5 May 2007, the CSHL Group generated revenues of £186 million and its EBITDA was approximately £7 million, its Adjusted EBITDA was approximately £10 million, its Adjusted EBITA was approximately £5 million, its EBIT was approximately nil and it generated a loss after taxation. As at the date of this document, the Directors are unable to quantify this loss due to the proximity of the date of this document to 5 May 2007, being the end of CSHL's financial year.

The profit estimate for the 52-week period ended 5 May 2007 is based on the unaudited management accounts of the CSHL Group for that period. The estimate has been properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of Mothercare as set out in notes 2 and 3 of "Part 6: Financial Information on Mothercare" of the Prospectus.

Furthermore, estimates of the CSHL Group's Adjusted EBITA and EBIT have been provided rather than profit before tax because, in the view of the Directors, provision of these measures provides a more meaningful understanding of the CSHL Group's underlying trading performance.

The Enlarged Mothercare Group

The Directors believe that, following completion of the Proposed Acquisition, the Enlarged Mothercare Group will be well placed to benefit from significant synergies, through optimising the enlarged UK store portfolio, international expansion, buying and sourcing margin benefits, leveraging Direct and cross-marketing opportunities and cost efficiencies. The Directors have confidence in the financial and trading prospects of the Enlarged Mothercare Group for the current financial year.

Terms of the Proposed Acquisition

Mothercare has agreed to acquire, and the CSHL Shareholders have agreed to sell, the entire issued and to be issued share capital in CSHL in consideration for the issue to CSHL Shareholders of New Mothercare Shares and the assumption by Mothercare of the CSHL Group's net debt on completion (the "**Acquisition Agreement**"). The number of New Mothercare Shares to be allotted to CSHL's Shareholders will be determined by (i) deducting from £49.8 million certain fees associated with the Proposed Acquisition payable by CSHL and the net costs or gain arising from terminating existing CSHL bank borrowings and interest rate hedge contracts and (ii) dividing the resultant figure by 361.45 pence, being the average of the Closing Price of a Share in the five dealing days prior to 18 March 2007, the date on which Mothercare announced that it was in discussions with CSHL regarding the Proposed Acquisition.

Fractions of New Mothercare Shares will not be allotted and fractional entitlements will be rounded down to the nearest whole number of New Mothercare Shares.

The Proposed Acquisition is conditional on the approval of our Shareholders, clearance from the Office of Fair Trading and the Competition and Consumer Protection Service of the Cyprus Ministry of Commerce, Industry and Tourism and Admission of the New Mothercare Shares.

The Acquisition Agreement may be terminated by Mothercare if CSHL, or any of CSHL's Shareholders, commit a material breach of its obligations under the Acquisition Agreement prior to completion of the Proposed Acquisition or if CSHL breaches certain pre-completion undertakings. The two largest CSHL Shareholders may terminate the Acquisition Agreement if the Closing Price of a Share falls below 331 pence and completion of the Proposed Acquisition has not occurred on or before 19 June 2007.

The two CSHL Shareholders who are to receive the largest percentage of New Mothercare Shares have agreed not to sell their New Mothercare Shares for a period of 180 days following completion of the Proposed Acquisition except through Mothercare's brokers or with the prior consent of Mothercare.

Further details of the principal terms and conditions of the Acquisition Agreement are set out in Part IV "Principal Terms of the Acquisition Agreement" of this document.

Admission

Application has been made to the UKLA and the London Stock Exchange for the New Mothercare Shares to be admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities. Application has not been, and will not be, made for the New Mothercare Shares to be admitted to, or to trade on, any other stock exchange.

Extraordinary General Meeting

The notice convening the EGM to be held at Mothercare, Cherry Tree Road, Watford, Hertfordshire WD24 6SH at 11.00 a.m. on 14 June 2007 is set out at the end of this document. The purpose of this meeting is to seek Shareholders' approval of the Resolutions set out in the notice of EGM. The Resolutions (which are inter-conditional) are being proposed to:

- approve the Proposed Acquisition;
- increase the authorised share capital of the Company from £47,883,706.50 to £52,500,000 by the creation of an additional 9,232,587 ordinary shares of 50 pence each ranking equally in all respects with the existing ordinary shares of 50 pence each in the capital of the Company; and
- authorise the Directors pursuant to section 80 of the Companies Act 1985 to allot relevant securities up to a maximum aggregate nominal amount of £6,944,000.

The Company currently holds no treasury shares. The proposed increased authorised share capital represents an increase of 9.6 per cent. of the Company's existing authorised share capital. The increase will allow the allotment and issue of the New Mothercare Shares to the CSHL Shareholders pursuant to the terms of the Acquisition Agreement and will leave an appropriate level of unissued Shares representing approximately 17 per cent. of the total issued share capital of the Company.

If the Resolutions are passed, the Directors will have the authority to allot a maximum aggregate nominal amount of up to £6,944,000 (13,888,000 Ordinary Shares as New Mothercare Shares), representing approximately 16 per cent. of the total issued share capital on 23 May 2007 (the latest practicable date before the publication of this document). This authority shall expire on the second anniversary of the date on which the Resolution is passed (unless previously revoked, varied or extended by the Company in general meeting).

If the Resolutions are passed, the Directors intend to exercise this authority and allot up to 13,888,000 New Mothercare Shares in connection with the Proposed Acquisition.

Action to be taken

A Form of Proxy for use in connection with the Mothercare EGM is enclosed. Whether or not you intend to attend the Mothercare EGM in person, you are requested to complete the Form of Proxy in accordance with the instructions printed on it and return it as soon as possible by post or (during normal business hours only) by hand, but in any event so as to be received by Lloyds TSB Registrars at The Causeway, Worthing, BN99 8UF no later than 11.00 a.m. on 12 June 2007. Returning a completed Form of Proxy will not prevent you from attending and voting in person at the Mothercare EGM should you wish to do so (and are so entitled).

Further information

Your attention is drawn to the further information contained in Part II to Part VI of this document. In particular you should consider the Risk Factors set out in Part II of this document. You are advised to read the whole of this document and the sections from the Prospectus which are incorporated by reference in Part V of this document and not to rely solely on the information contained in this letter.

Recommendation

Your Board, which has received financial advice from Citi, considers the Proposed Acquisition and the Resolutions to be in the best interests of Shareholders as a whole. In providing its financial advice, Citi has relied upon the Board's commercial assessment of the Proposed Acquisition and the Resolutions.

Accordingly, the Board unanimously recommends that you vote in favour of the Resolutions to be proposed at the Extraordinary General Meeting, as each of the Directors intend to do in respect of their own beneficial holdings which amount in aggregate to 595,649 Shares, representing approximately 0.8 per cent. of the existing issued ordinary share capital of Mothercare as at 23 May 2007, the latest practicable Business Day prior to posting of this document.

Yours sincerely



Ian Peacock
Chairman

PART II

RISK FACTORS

You should carefully consider the following risk factors in addition to the other information contained in this document. The risks and uncertainties described below are those which if they arose, in the opinion of the Directors and the Company could have an adverse effect on the Mothercare Group's or the Enlarged Mothercare Group's business, results of operations or financial condition. If this were to lead to a decline in the trading price of the Shares, prospective investors may lose all or part of their investment. The risks and uncertainties described below are not the only ones faced by the Mothercare Group or the Enlarged Mothercare Group. Additional risks and uncertainties not presently known or currently deemed immaterial may also have an adverse effect on the Mothercare Group's or the Enlarged Mothercare Group's business, results of operations or financial condition.

You should read this document as a whole and not rely solely on the information set out in this section. The financial information set out in this section has been extracted without material adjustment from "Part 6: Financial Information on Mothercare", "Part 7: Financial Information on CSHL and Early Learning Holdings Limited" and "Part 8: Unaudited Pro Forma Statement of Net Assets of the Enlarged Mothercare Group" set out in the Prospectus.

Risks relating to the Mothercare Group's and/or the Enlarged Mothercare Group's Business

The success of the Enlarged Mothercare Group's business will be dependent on the reputation of the Mothercare brand and the Early Learning Centre brand

The Enlarged Mothercare Group's success and sales will be dependent, in part, on the strength and reputation of the Mothercare brand and the Early Learning Centre brand. Unfavourable publicity concerning the Enlarged Mothercare Group, the Mothercare brand or the Early Learning Centre brand or any of its franchisees or manufacturers or a substantial erosion in the reputation of, or value associated with, the Mothercare brand or the Early Learning Centre brand (including as a result of any complaints or litigation against the Enlarged Mothercare Group, whether successful or not) could have an adverse effect on the Enlarged Mothercare Group's business, financial condition and results of operations.

The Enlarged Mothercare Group's business and competitive position will be subject to the risk of weak sales or insufficient inventory during peak selling seasons

The Enlarged Mothercare Group's business will be subject to seasonal variations. In the United Kingdom, for example, its ELC stores, usually experience increases in sales in the period before Christmas. If sales in this period are lower than expected for any reason, there may be a build-up of unsold inventory and the Enlarged Mothercare Group might need to lower its prices in those stores in order to reduce inventory levels. At the same time, if it fails to purchase a sufficient quantity of merchandise, it might not have an adequate supply of products to meet consumer demand. This could have an adverse effect on the Enlarged Mothercare Group's business, financial condition and results of operations.

The Enlarged Mothercare Group's success will be dependent on its logistics and distribution infrastructure

Any significant disruption to the operations at Mothercare's distribution centre in Daventry, Northamptonshire or at CSHL's warehouse in Swindon or interruption to the smooth running of the Enlarged Mothercare Group's fleet of vehicles, might significantly impact its ability to manage its operations, distribute products to its stores and maintain its supply chain. Such disruption could have an adverse effect on the Enlarged Mothercare Group's business, operating profit and overall financial condition.

Any interruption or failure of the Enlarged Mothercare Group's information technology or communications systems could have an adverse effect on the Enlarged Mothercare Group

Mothercare relies on the uninterrupted operation of its computer and communications systems, as well as the equivalent systems of third parties, for the efficient running of its stores and operations, including, but not limited to, the monitoring of stock levels. Mothercare's head office in Watford, Hertfordshire serves as the primary site for all of the Mothercare Group's information technology and communications systems. Any significant disruption to these information technology or communications systems, including in

relation to the EPOS systems installed in each store, could have an adverse effect on the proper functioning of its stores, particularly with regard to store replenishment and distribution activities, which can be impacted even by short-term system failures, and on the Enlarged Mothercare Group's ability to manage its operations, which could have an adverse effect on the Enlarged Mothercare Group's business, operating profit and overall financial condition.

Mothercare and CSHL may not be able to predict or fulfil consumer preferences accurately

Mothercare and CSHL derive certain of their revenues from the sale of products that are subject to rapidly changing consumer preferences. Revenue and operating profit are sensitive to these changing preferences and, accordingly, Mothercare and CSHL must identify and interpret trends in the market for children's products and respond to them swiftly. Failure to anticipate, identify or react swiftly to changes in consumer preferences could result in lower sales, higher markdowns to reduce excess inventories and lower operating profits of the Enlarged Mothercare Group.

Furthermore, many products are manufactured in China, India and South-East Asia and are subject to long lead times. Accordingly, in some instances, Mothercare and CSHL must enter into contracts for the purchase and manufacture of merchandise well in advance. The long lead times between ordering and receiving delivery make it more important to predict accurately, and may make it more difficult to fulfil, the demand for items. There can be no assurance that Mothercare's or CSHL's orders will match actual demand. If either Mothercare or CSHL are unable to successfully predict or respond to sales demand, or to changing styles or trends, its revenue will fall and it may be forced to rely on additional markdowns or promotional sales to dispose of excess or slow-moving inventory, or it may experience inventory shortfalls on popular merchandise, any of which could have an adverse effect on its business, operating profit and overall financial condition.

The business of the Enlarged Mothercare Group could be affected by factors outside its control, such as adverse economic conditions, natural disasters or terrorist activity

Mothercare's and CSHL's results are impacted by factors outside its control, such as the prevailing economic climate, levels of employment, real disposable income, rent levels for commercial property, energy costs, payroll costs (as a result of inflation, or governmental action to increase minimum wages or personal taxation or contributions to pension provisions), interest rates, the availability of consumer credit, consumer confidence, consumer perception of economic conditions, terrorist attacks, armed conflicts or other geopolitical uncertainty. As a significant proportion of the Mothercare Group's and the CSHL Group's revenue is derived from the UK and a significant proportion of their costs are incurred in the UK, any changes to such factors in the UK could have a particular impact on the Enlarged Mothercare Group's revenue and costs. Moreover, some of the items that the Mothercare Group sells, particularly higher value nursery products and pushchairs, represent discretionary purchases, which may result in the Mothercare Group experiencing a decline in sales that is proportionally greater than the level of general economic decline.

Mothercare and CSHL are, and the Enlarged Mothercare Group will be, reliant on manufacturers in other countries

Mothercare and CSHL source the majority of the products they sell in their stores, either directly or through third-party suppliers, from outside the UK. As a result, Mothercare and CSHL are subject to the risks associated with international trade, particularly those risks which are common in the manufacturing and import of goods from developing countries, including risks relating to the possible imposition of import charges, compliance costs and exposure to different legal standards.

Mothercare's and CSHL's imported products are subject to customs duties. If customs duties were to increase substantially, it could harm the Enlarged Mothercare Group's profitability. The UK and the countries in which Mothercare's and CSHL's products are manufactured could impose new quotas, duties, tariffs or other restrictions, or adversely adjust prevailing quota, duty or tariff levels, any of which could have an adverse effect on the Enlarged Mothercare Group's business, operating profit or overall financial condition to the extent such costs cannot be passed on to customers.

Mothercare and CSHL are also, and the Enlarged Mothercare Group will be, subject to more general risks associated with conducting business outside the UK, including risks relating to political instability, unrest or military conflict, changes in regulations and economic disruption, or changes in business conditions.

If any of these risks were to affect Mothercare's or CSHL's ability to source products, it could adversely affect the Enlarged Mothercare Group's business, operating profit and overall financial condition.

The sector in which Mothercare and CSHL operates is competitive

The market for children's products is competitive, particularly with respect to product selection and quality, store location and design, inventory, price, customer service and advertising. Mothercare and CSHL compete with a variety of retailers of varying sizes and covering different product categories. Such competition continues to place pressure on Mothercare's and CSHL's pricing strategy, margins and profitability.

Some of the Mothercare Group's and the CSHL Group's competitors are general retailers (such as supermarkets and other large retailers) that compete with Mothercare and CSHL in a wide number of product categories, while others are specialist retailers (such as independent retailers, mail-order or internet retailers) that compete with Mothercare and CSHL only in certain product categories. Some of Mothercare's and CSHL's competitors, particularly supermarkets, may have greater market presence, financial resources, greater purchasing economies of scale and lower cost bases than Mothercare and CSHL in certain market segments and may be able to respond more swiftly to changes in market conditions, any of which could give them a competitive advantage over the Enlarged Mothercare Group. Increased competition in markets in which the Enlarged Mothercare Group will have stores, the adoption by competitors of aggressive pricing strategies and retail sales methods or any other actions by the Enlarged Mothercare Group's competitors, as well as Mothercare's actions to maintain its competitiveness and reputation, could have an adverse effect on the Enlarged Mothercare Group's business, operating profit and overall financial condition.

Mothercare and CSHL depend, and the Enlarged Mothercare Group will depend, on key senior management personnel to manage its business and brands and the departure of such management or personnel could adversely affect its business or that of the Enlarged Mothercare Group

Mothercare and CSHL are dependent upon certain management personnel who have extensive experience and knowledge of retail operations. The successful implementation of Mothercare's strategy depends on the continuing availability of senior management at its head office and its distribution centre and the Enlarged Mothercare Group's ability to attract, motivate and retain other senior employees. If the Enlarged Mothercare Group were to lose the services of members of its executive committee or senior management and were unable to employ suitable replacements in a timely manner, its business, operating profit and overall financial condition could be adversely affected.

Mothercare and CSHL are subject to adverse fluctuations in currency exchange rates

The vast majority of Mothercare's and CSHL's customers pay for products in pounds sterling. However, both the Mothercare Group and the CSHL Group pay certain manufacturers and suppliers in other currencies, primarily US dollars. Consequently, Mothercare and CSHL bear the risk of disadvantageous fluctuations in currency exchange rates. Although both the Mothercare Group and the CSHL Group engage in foreign exchange hedging transactions, these transactions have not always been sufficient to, and may not in the future, adequately protect the Enlarged Mothercare Group's operating results from the effects of exchange rate fluctuations. In addition, the Enlarged Mothercare Group's hedging transactions may reduce any benefit that it might otherwise receive as a result of favourable movements in exchange rates.

In addition, under IFRS, the derivative instruments that the Mothercare Group and the CSHL Group use to hedge their exposure to currency exchange rates must be revalued annually at fair value under IAS 39, and changes in the fair value of such instruments must be carried through to the Enlarged Mothercare Group's income statement. This means that the Enlarged Mothercare Group's reported profit for any year may materially increase or decrease as a result of volatility in currency exchange rates in a way that is not reflective of the underlying operating performance of the business. This may make it more difficult to assess the Enlarged Mothercare Group's financial condition and results of operations from year to year.

The Enlarged Mothercare Group's business and competitive position will be subject to risks associated with its property portfolio in the UK

The vast majority of Mothercare's and CSHL's store portfolio is held through leasehold interests which are generally subject to periodic rent reviews, lease expiries and renegotiations. As a result, Mothercare and

CSHL are, and the Enlarged Mothercare Group will be, susceptible to changes in the property rental market, such as increases in market rents. Furthermore, the Enlarged Mothercare Group's ability to obtain appropriate real estate to open new stores depends upon the availability of sites that meet the Enlarged Mothercare Group's criteria, its ability to negotiate terms that meet its financial targets and its ability to obtain planning consent for the use of its stores on satisfactory terms with the local planning authorities. In addition, the Enlarged Mothercare Group may not be able to renew Mothercare's and CSHL's existing store leases where, for example, the landlord is able to establish statutory grounds for non-renewal or if the leases do not have the benefit of statutory or contractual rights of renewal. These factors may result, among other things, in significant alterations to rental terms (including increasing rental rates), in an inability to effect site renewals or in a failure to secure real estate locations adequate to meet annual targets. Any of these factors could have an adverse effect on the Enlarged Mothercare Group's business, operating profit and overall financial condition.

The Enlarged Mothercare Group's property portfolio may include properties which were constructed in areas that have historically been the subject of non-retail uses. It is possible that onsite pollution or contamination could have been caused by such previous uses, or in limited circumstances by current uses, for which the Enlarged Mothercare Group could be held liable. Although the Directors are not aware of any relevant liability, claims or actions, a claim or regulatory action against the Enlarged Mothercare Group for pollution or contamination could have an adverse effect on its business, operating profit and overall financial condition.

The Enlarged Mothercare Group's business and competitive position could be harmed if it is unable to protect and enforce its intellectual property rights

The Mothercare Group's and the CSHL Group's trademarks are central to the value of the Mothercare and ELC brands. Third parties may in the future try to challenge the ownership of and/or validity of the Enlarged Mothercare Group's intellectual property. In addition, the Enlarged Mothercare Group's businesses will be subject to the risk of third parties counterfeiting Mothercare and ELC branded products or otherwise infringing the Enlarged Mothercare Group's intellectual property rights. The Enlarged Mothercare Group might not always be successful, particularly in developing countries, in securing protection for and enforcing its intellectual property rights, combating the production and sale of counterfeit products and stopping other infringements of the Enlarged Mothercare Group's intellectual property rights. The Enlarged Mothercare Group might need to resort to litigation in the future to enforce its intellectual property rights. Any litigation could result in substantial costs and a diversion of resources. The Enlarged Mothercare Group's failure to protect and enforce its intellectual property rights could have an adverse impact on the Enlarged Mothercare Group's business, operating profit and overall financial condition.

The Enlarged Mothercare Group will rely on its franchisees, suppliers and distributors to comply with employment, environmental and other laws and practices

Mothercare is not aware of any of its or CSHL's franchisees, suppliers and distributors being in material non-compliance with any employment, environmental and other local laws. However, Mothercare can give no assurance that this is the case. Mothercare implements processes to provide assurance that its suppliers comply with the Mothercare Group's terms and conditions, as well as labour laws and other relevant laws generally. In light of the increased public focus on employment and environmental matters, the violation, or allegations of a violation, of such laws or regulations, or the failure to achieve particular standards, by any of the Enlarged Mothercare Group's franchisees, suppliers or distributors, could lead to adverse publicity and a decline in public demand for the Enlarged Mothercare Group's products, or require the Enlarged Mothercare Group to incur expenditure or make changes to its supply chain and other business arrangements to ensure compliance. Any such events could have an adverse effect on the Enlarged Mothercare Group's business, operating profit and overall financial condition.

The Enlarged Mothercare Group's dependence on franchisees operating stores using the Mothercare and ELC brand names outside the United Kingdom could adversely impact the Enlarged Mothercare Group's business and results of operations

Approximately 17 per cent. of the Mothercare Group's revenue in the 2007 Financial Year was derived from franchise operations using the Mothercare brand names outside the United Kingdom. Approximately 5 per cent. of the CSHL Group's revenue in the 52-week period ended 6 May 2006 was derived from

franchise operations using the ELC brand name outside the UK and Ireland. The Enlarged Mothercare Group's dependence on franchisees exposes it to a number of risks, including that:

- the Mothercare or ELC brand could suffer a loss of reputation and/or value if franchisees do not maintain the Enlarged Mothercare Group's brand policies, or if they fail to adhere to the Enlarged Mothercare Group's quality control standards;
- if, following a franchisee default, the Enlarged Mothercare Group was unable to replace the franchisee for any material period of time, this could adversely affect the Enlarged Mothercare Group's turnover and the value of the Mothercare or ELC brands;
- the Enlarged Mothercare Group's franchisees may fail to make payments or report sales income accurately to the Enlarged Mothercare Group, fail to pay royalties to the Enlarged Mothercare Group, or may fail to do so in a timely fashion, whether due to financial difficulty or otherwise, any of which could have a negative impact on the revenues and cash flows received therefrom by the Enlarged Mothercare Group;
- if the Enlarged Mothercare Group cannot renew existing franchise agreements on acceptable terms when they expire or if any franchise agreements are terminated early, the Enlarged Mothercare Group's turnover and operating profit may be adversely affected; and
- if a default by any of the Enlarged Mothercare Group's franchisees that generate significant revenues for the Enlarged Mothercare Group was to occur, the Enlarged Mothercare Group's turnover and operating profit may be adversely affected.

Any disruption or other adverse event affecting the Enlarged Mothercare Group's relationship with any of its major suppliers could adversely affect its business

Any disruption or other adverse event (including delays in delivery, failure to maintain quality standards or unauthorised sales of products under the Mothercare brand or the ELC brand) affecting the Enlarged Mothercare Group's relationship with any of its major manufacturers or suppliers could have an adverse effect on its business, operating profit or overall financial condition.

If the Enlarged Mothercare Group were to replace any of its major manufacturers or suppliers, it may face risks and costs associated with a transfer of operations. In addition, Mothercare does not have formal long-term agreements with its suppliers and manufacturers and cannot guarantee that it will be able to maintain its relationships with them. A failure to replace any of its major manufacturers or suppliers on commercially reasonable terms, or at all, could have an adverse effect on the Enlarged Mothercare Group's business, operating profit or overall financial condition.

An increase in the Mothercare Group's funding needs or changes to obligations in respect of its pension schemes could have an adverse impact on its business

The Mothercare Group makes contributions to certain occupational defined benefit pension schemes. The formal actuarial funding valuations of the pension schemes are normally carried out every three years. The aggregate surplus of the Mothercare Group's defined benefit pension schemes, based on IFRS and recognised as an asset on the Mothercare Group's balance sheet, was approximately £2.0 million as at 31 March 2007. There are various risks that could adversely affect the funding of the defined benefits under such schemes, and consequently the Mothercare Group's funding obligations, such as the poor investment performance of pension fund investments, the schemes' trustees switching to an investment strategy not having the appropriate mix of equities, bonds and other investments, the trustees increasing employer contributions to the schemes, longer life expectancy, adverse annuity rates or a change in the actuarial assumptions by reference to which the Mothercare Group's contributions are assessed. An increase in the Mothercare Group's pension related costs could have an adverse effect on the Enlarged Mothercare Group's cash flow, operating profit and overall financial condition.

Risks relating to the Proposed Acquisition

The Enlarged Mothercare Group may fail to realise the perceived benefits of the Proposed Acquisition

The Enlarged Mothercare Group may not realise the expected benefits and synergies from the Proposed Acquisition or may encounter difficulties in achieving these anticipated benefits. There can be no assurance that Mothercare will realise these benefits in the time expected or at all. In addition, there can

be no assurance that the costs of the implementation of the expense savings programme will not exceed those estimated by Mothercare.

The integration of the CSHL Group into the Mothercare Group's business may take longer than expected, cost more than expected or difficulties relating to the integration may arise. This could have a negative impact on the business, operating profit or overall financial condition of the Enlarged Mothercare Group.

The Proposed Acquisition is subject to clearance from relevant anti-trust regulators

Completion of the Proposed Acquisition is conditional on, amongst other things, the approval of the transaction by Shareholders in general meeting and clearance from the relevant anti-trust regulators. The Office of Fair Trading or other relevant anti-trust regulators may refuse its approval or may seek to make its approval subject to compliance by Mothercare or CSHL with onerous conditions. These conditions, if accepted, could have the effect of imposing significant additional costs on the Enlarged Mothercare Group, of limiting the revenues of the Enlarged Mothercare Group, requiring divestitures of certain assets or imposing other operating restrictions upon the business of the Enlarged Mothercare Group, any of which could have an adverse effect on the Enlarged Mothercare Group's cash flow, operating profit and overall financial condition.

Risks relating to the Shares

Substantial future sales of Shares could impact the market price of the Shares

Upon completion of the Proposed Acquisition, the CSHL Shareholders will in aggregate hold up to 13,888,000 Shares, representing approximately 16 per cent. of the issued Shares. The majority of the New Mothercare Shares will be subject to orderly marketing arrangements. The two CSHL shareholders who are to receive the largest percentage of Shares have agreed not to sell, dispose of or otherwise transfer their New Mothercare Shares for a period of 180 days following the completion of the Proposed Acquisition except through Mothercare's brokers or with the prior consent of Mothercare. Sales of substantial amounts of New Mothercare Shares could adversely affect the prevailing market price of the Shares. These sales may also make it difficult for the Company to issue equity securities in the future at a time and at a price that it deems appropriate.

Mothercare may not be able to pay dividends

As a matter of English law, Mothercare can pay dividends only to the extent that it has distributable reserves available which, as Mothercare is a group holding company with no independent operations, is dependent on Mothercare's ability to receive funds for such purposes, directly or indirectly, from its operating subsidiaries in a manner which creates distributable reserves for Mothercare. Mothercare's ability to pay dividends to shareholders is therefore a function of its existing Mothercare Group distributable reserves, future Enlarged Mothercare Group profitability and the ability to distribute or dividend profits from its operating subsidiaries up the Enlarged Mothercare Group structure to Mothercare.

PART III

INFORMATION ON THE CSHL GROUP

1. OVERVIEW

The CSHL Group owns and operates ELC, a designer and retailer of toys and other children's products primarily for the 0 to 6 year age range, primarily for the UK market although with increasing international presence. As at 27 April 2007, the CSHL Group had 210 stores in the UK branded as ELC, five in Ireland and 89 international franchise stores (including two in the Channel Islands).

The CSHL Group also has a direct internet and catalogue business and operates a small wholesaling business, providing products to domestic and international customers. In addition, the CSHL Group currently has three stores branded as Daisy & Tom, one of which is in the process of being closed. The Daisy & Tom business is currently loss making. At the same time as the Acquisition Agreement was entered into, CSHL and its subsidiary, Chelsea Stores Limited, which operates the Daisy & Tom business, agreed to transfer the Daisy & Tom brand and other intellectual property and data related to the Daisy & Tom business (the "**Daisy & Tom IP**") to DCT. DCT has granted CSHL and Chelsea Stores Limited the right to use the Daisy & Tom IP until 27 April 2008, or, if the Proposed Acquisition completes during this period, until the expiry of the period of 12 months from completion of the Proposed Acquisition. During the period of the licence the two remaining Daisy & Tom stores will be rebranded as either Mothercare or ELC stores or closed.

The CSHL Group's business is currently seasonal with nearly half of its sales and all its profits being generated in October, November and December.

During the 52-week period ended 6 May 2006, the CSHL Group generated revenues of £186 million, EBITDA of £6 million, Adjusted EBITDA of £10 million, Adjusted EBITA of £5 million and an operating loss before interest and tax of £3 million. For the same period, the CSHL Group generated a loss before tax of £6 million. As at 6 May 2006, the CSHL Group had gross assets of £107 million.

The CSHL Group retails a large range of products, including over 2,000 toy lines. Approximately 80 per cent. of its toys and games are sold under the ELC own brand. Other brands sold in ELC stores include Fisher-Price®, Leapfrog® and Lego®.

The CSHL Group's main centre of operations is based in Swindon. Sourcing and design activities are carried out predominantly in Hong Kong. Products imported to the UK are shipped directly to Swindon, where the warehousing and merchandising departments are based, and distributed from there to the UK and Irish stores.

CSHL Group's internet and catalogue business allows customers to place orders via the web, phone or fax. In 2005 CSHL redesigned and relaunched the ELC website, resulting in significantly increased web-based sales.

During Autumn of 2004, CSHL began to refurbish the ELC store portfolio. To date, 109 stores have been refurbished, with new flooring, wooden shelving, exteriors and fascias being installed. A further 12 new, re-sited or re-sized stores have been fitted out to similar specifications to the refurbished stores.

The CSHL Group has invested a total of £14.3 million on capital expenditure in its 2005 and 2006 financial years and Early Learning Holdings Limited invested £7.3 million on capital expenditure in its 2004 financial year.

2. HISTORY

ELC was founded in 1974 as a mail order business offering toys and books with educational content. The first ELC retail store opened in Reading later the same year. In 1985, ELC was acquired by John Menzies plc ("**Menzies**"). Menzies continued to expand the estate and ELC became a well-known high street brand. In September 2001, ELC was the subject of a management buyout. Under its new ownership, ELC streamlined its operations, exited non-profitable product categories and stores and grew its sourcing operation in Asia.

In April 2004, CSHL, a holding company owned by Rhône, DCT and management acquired ELC and, at the same time, Daisy & Tom.

3. PRODUCTS

ELC has eight major categories of toys and games, primarily for children in the 0 to 6 year age range. ELC's entire range of over 2,000 toy lines is available via the internet and through the larger stores, while smaller stores carry the most popular lines. The full product offering can also be accessed through the home delivery service provided by its direct internet and catalogue business, allowing even the smallest store to offer any product for delivery direct to the customer's home.

The eight major product categories are divided into:

<u>Product Category</u>	<u>Description</u>	<u>Approx. % of Total UK Sales</u>
Music and Learning	Musical instruments, CD players, tape recorders, basic electronic games, microphones, magnetic products and batteries	12%
Sports and Activity	Active toys and equipment, including swings, slides, climbing frames, inflatables, pools, sports games and ride-ons	11%
Books and Audio	Books, CDs, tapes	4%
Art and Creativity	Art kits, art tools, materials including paints, crayons and paper, Soft Stuff®	13%
Baby and Toddler	Toys for babies and 6-12 month olds, including Happyland, Bathtime and ELC Classics	24%
Let's Pretend	Dolls, dressing up, toy versions of real world activities, including shopping, kitchen, garage	14%
Action and Adventure	Dressing up, road and rail sets, action figures, construction toys, farms and animals	15%
Puzzles, Games, Character	Board and other games and puzzles	7%

Source: CSHL

4. UK AND IRELAND STORES

The majority of the CSHL Group's turnover is generated through its high street and shopping centre stores. As at 27 April 2007, the CSHL Group traded from 215 ELC branded stores in the UK and Ireland, of which 83 were high street locations, 115 within local/city centre shopping centres, 12 regional shopping centres, four retail park stores and one discount outlet centre. The high street stores are spread across the UK and Ireland with around 55 stores in each of the CSHL Group's four operating areas (South, North, Central England/Wales and Scotland/Ireland). The stores are designed to provide an environment in which browsing and shopping is easy for the adults, whilst the children's attention is kept in the store through play areas, reading zones and toy demonstrations.

5. DIRECT SALES

ELC's direct channel comprises the catalogue business and the websites www.elc.co.uk and www.elc.com.

The catalogue business is driven by the ELC catalogue, published twice a year in August and January. Orders are taken by post, telephone and fax. The processing and distribution of goods ordered via the catalogue is outsourced to Zendor.com Limited ("Zendor") (a subsidiary of N Brown Group Plc). Zendor runs the call centre which handles enquiries/orders and is responsible for the distribution of goods to customers from its warehouse in Greater Manchester. The catalogue is a major promotional vehicle for ELC and is available in every store and mailed to customers on the ELC database.

ELC created its original transactional internet site in 1999 and the site was updated and substantially redesigned in 2005.

6. INTERNATIONAL FRANCHISES

As at 27 April 2007, ELC had 89 franchise stores across 15 countries. 44 of these franchise stores were in the Middle East and these currently account for approximately one third of franchise turnover. Historically, franchisees have typically ordered products from the warehouse in Swindon. The business is moving progressively towards having more orders fulfilled, particularly for non-European franchisees, direct from Hong Kong. An ELC warehouse was opened in China in January 2007 for this purpose. Direct fulfilment has the benefit of saving costs and liberating warehouse capacity in Swindon.

ELC also operates an international licensing business under which it sells ELC developed products to third parties. This provides an alternative channel for utilising the intellectual property developed by ELC. In return for a royalty fee, ELC allows select third parties to buy its products and sell them, either under the ELC brand or under their own brand, in pre-agreed territories. Existing arrangements cover a variety of countries and geographical areas including the US, Canada, South Korea, Scandinavia and Southern Europe.

7. SOURCING, PURCHASING AND DISTRIBUTION

ELC sources products mainly from the Far East, through its Hong Kong office. Key developments in the sourcing of the ELC product range have included the rationalisation of the supply base, the increase in the number of own branded goods (approximately 80 per cent. of ELC's 2,000 product lines are ELC branded) and the increase in the number of those goods sourced from the Far East (approximately 85 per cent. of the ELC branded range). The Hong Kong office manages ELC products from conception through delivery including product design, product management, quality assurance, packaging and shipping.

ELC seeks to develop strong relationships with its major suppliers to ensure consistent levels of quality and exclusive product development. As part of this approach, ELC currently invests around £1 million per annum in product tooling for installation in key suppliers' factories.

The UK warehousing and distribution function is outsourced to TDG (UK) Limited.

8. PROPERTY

All of ELC's 210 stores in the United Kingdom are occupied pursuant to short leases, with the majority of leases expiring during the period between 2008 and 2013. These are subject to upwards-only rent reviews, typically every five years and based on an assessment of the open market rental value of the property at the time of the review. In general, store leases contain standard institutional terms, including requirements that ELC bears the cost of repairs and insurance for the leased premises. Some of its leases impose obligations on ELC to keep its premises open during the term of the lease. Also some leases contain provisions requiring a proportion of turnover exceeding certain specified thresholds to be paid as rent. As at the end of CSHL's 2006 financial year, the total annual net rent for all leasehold stores in the United Kingdom was approximately £22 million.

The average selling space for CSHL's out-of-town stores is significantly larger than that of its in-town stores.

The CSHL Group leases its head office and principal warehousing facility, which are both located on the South Marston Business Park, Swindon, each pursuant to a 20-year lease which expire in August 2015 and March 2015, respectively. Under the terms of each lease, rent is reviewed every five years and as at 21 March 2007, the CSHL Group's annual rent payable under the leases totalled approximately £1.8 million. Each lease requires the CSHL Group to bear the cost of repairs and insurance for the leased premises. The CSHL Group's warehouse facilities at Swindon are managed by TDG (UK) Limited pursuant to a distribution contract.

The CSHL Group also rents office space in central London.

9. EMPLOYEES

As at 5 May 2007, the CSHL Group had approximately 2,124 employees, of whom 2,079 were employed in the UK and Ireland and 45 in Hong Kong.

10. THE CSHL GROUP CURRENT TRADING UPDATE

In the absence of unforeseen circumstances and on the basis outlined below the Directors estimate that, for the 52-week period ended 5 May 2007, the CSHL Group generated revenues of £186 million and its EBITDA was approximately £7 million, its Adjusted EBITDA was approximately £10 million, its Adjusted EBITA was approximately £5 million, its EBIT was approximately nil and it generated a loss after taxation. As at the date of this document, the Directors are unable to quantify this loss due to the proximity of the date of this document to 5 May 2007, being the end of CSHL's financial year.

The profit estimate for the 52-week period ended 5 May 2007 is based on the unaudited management accounts of the CSHL Group for that period. The estimate has been properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of Mothercare as set out in notes 2 and 3 of "Part 6: Financial Information on Mothercare" of the Prospectus.

Furthermore, estimates of the CSHL Group's Adjusted EBITA and EBIT have been provided rather than profit before tax because, in the view of the Directors, provision of these measures provides a more meaningful understanding of the CSHL Group's underlying trading performance.

11. MATERIAL CONTRACTS

For information on the contracts (not being contracts entered into in the ordinary course of business) which have been entered into by a member of the CSHL Group within the two years immediately preceding the date of this document and which are, or may be, material or which have been entered into at any time by any member of the CSHL Group and contain provisions under which any member of the CSHL Group has an obligation or entitlement which is, or may be, material to the CSHL Group as at the date of this document, see paragraphs 17.3 to 17.13 of "Part 9: Additional Information" contained in the Prospectus which is incorporated by reference into this document.

12. LITIGATION

Neither CSHL or any member of the CSHL Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the CSHL Group is aware) during the 12 months preceding the date of this document which may have, or have had, a significant effect on the financial position or profitability of the CSHL Group.

13. KEY INDIVIDUALS

The key individuals important to CSHL are as follows:

Nigel Robertson has been the Chief Executive Officer of CSHL since its acquisition of ELC in April 2004. Between March 2000 and April 2004, Mr. Robertson was the Managing Director of Ocado, the online grocery business set up in partnership with Waitrose. Prior to this, Mr. Robertson held senior positions at Marks and Spencer both in the UK and USA. He is also a Non-Executive Director of WM Morrison Supermarkets PLC.

Gavin Jones was appointed Finance Director and Company Secretary of CSHL in August 2006. Mr. Jones joined ELC as Retail Finance Manager in July 1998. Between July 1998 and August 2006, Mr. Jones held positions as Commercial Finance Manager and Head of Finance. Mr. Jones qualified as a Chartered Accountant with Ernst & Young in July 1996.

PART IV
PRINCIPAL TERMS OF THE ACQUISITION AGREEMENT

Under the terms of the Acquisition Agreement Mothercare has agreed to acquire the entire issued and to be issued share capital of CSHL in consideration for the issue to CSHL Shareholders of New Mothercare Shares and the assumption by Mothercare of the CSHL Group's net debt on completion of the Proposed Acquisition. On completion of the Proposed Acquisition, CSHL will become a wholly-owned subsidiary of the Company.

1. CALCULATION OF CONSIDERATION

The number of New Mothercare Shares to be allotted to CSHL's Shareholders will be determined by (i) deducting from £49.8 million certain fees associated with the Proposed Acquisition payable by CSHL and the net costs or gain arising from terminating existing CSHL bank borrowings and interest rate hedge contracts and (ii) dividing the resultant figure by 361.45 pence, being the average of the Closing Price of a Share in the five dealing days prior to 18 March 2007, the date on which Mothercare announced that it was in discussions with CSHL regarding the Proposed Acquisition.

2. CONDITIONS PRECEDENT TO CLOSING

The Acquisition Agreement is conditional on the following matters being satisfied or waived on or before 5.30 p.m. on 27 July 2007 (or such later date as the Company, DCT and Rhône may otherwise agree):

- (a) the Shareholders passing, without material amendment, the Resolutions;
- (b) a decision having been issued in terms reasonably satisfactory to the Company by the Office of Fair Trading that the transaction contemplated by the Acquisition Agreement will not be referred to the Competition Commission;
- (c) the Competition and Consumer Protection Service of the Cyprus Ministry of Commerce, Industry and Tourism deciding (i) that the acquisition does not fall under section 19(a) of the Control of Concentrations between Enterprises Law or (ii) to approve the transaction (or being deemed to have done so);
- (d) the Prospectus being approved by the FSA; and
- (e) Admission of the New Mothercare Shares.

The Company may waive the conditions described in paragraphs (b) and (c) above by notice to DCT and Rhône.

3. TERMINATION

The Acquisition Agreement may be terminated by the Company before completion of the Proposed Acquisition if CSHL, or any of the CSHL Shareholders, commits a material breach of its obligations under the Acquisition Agreement or if CSHL breaches certain pre-completion undertakings or CSHL breaches other pre-completion undertakings including, amongst other things:

- (a) not to declare or pay any dividend or distribution to shareholders;
- (b) not to create or redeem any security, or give or agree to give any guarantees or indemnities not consistent with past practice and in the ordinary course of business;
- (c) not to make changes, or agree to make changes, to the share capital of CSHL, other than as provided in the Acquisition Agreement;
- (d) not to enter into any new franchise agreements; and
- (e) not to acquire any freehold property.

DCT and Rhône may terminate the Acquisition Agreement before completion if:

- (a) the Shareholders fail to adopt, without material amendment, any of the Resolutions;
- (b) if the Board withdraws its recommendation to Shareholders to vote in favour of the Resolutions;

- (c) if the meeting convened by the notice of Extraordinary General Meeting, contained at the end of this document, is adjourned to a date later than 30 June 2007 or, where a supplementary prospectus or circular is required, to a date later than 31 July 2007 (or such later date as DCT, Rhône and the Company may agree); or
- (d) if the Closing Price of a Share falls below 331 pence and completion has not occurred on or before 19 June 2007.

4. BREAK FEE

The Company has agreed to pay to CSHL and the CSHL Shareholders £850,000 as liquidated damages if the Acquisition Agreement is terminated because:

- (a) the Shareholders fail to adopt, without material amendment, any of the Resolutions;
- (b) the Board withdraws its recommendation to Shareholders to vote in favour of the Resolutions;
- (c) the meeting convened by the notice of Extraordinary General Meeting, contained at the end of this document, is adjourned to a date later than 30 June 2007 or, where a supplementary prospectus or circular is required, to a date later than 31 July 2007 (or such later date as DCT, Rhône and the Company may agree);
- (d) the Prospectus is not approved by the FSA;
- (e) Admission of the New Mothercare Shares does not become effective; or
- (f) DCT, Rhône and the Company jointly agree in writing that there is no reasonable prospect of the conditions referred to in sub-paragraphs 2(a), (d) or (e) above being satisfied on or before 27 July 2007 (or such later date as DCT, Rhône and the Company may agree),

otherwise than in certain circumstances, including where the Circular or the Prospectus contains information which is materially inaccurate in relation to the CSHL Group or the CSHL Shareholders by reason of the CSHL Group or the CSHL Shareholders having provided inaccurate or misleading information.

5. ORDERLY MARKETING

DCT and Rhône, who are to receive the largest percentage of New Mothercare Shares, have agreed not to sell, dispose of or otherwise transfer their New Mothercare Shares for a period of 180 days following completion of the Proposed Acquisition except through Mothercare's brokers or with the prior consent of Mothercare.

6. REPRESENTATIONS AND WARRANTIES

The Acquisition Agreement contains warranties from the CSHL Shareholders to the Company and from the Company to the CSHL Shareholders in each case as to authority and capacity to enter into the Acquisition Agreement.

7. PRE-CLOSING OBLIGATIONS

From the date of the Acquisition Agreement until the earlier of completion or termination of the Acquisition Agreement, the Company and the CSHL Shareholders have agreed, amongst other things:

- (a) to carry on CSHL's business in good faith in the ordinary course as is consistent with the manner in which the business has been carried on in the two years preceding 27 April 2007 and so as to maintain the business as a going concern; and
- (b) that the Chief Executive of CSHL will meet with the Chief Executive and the Finance Director of the Company on a weekly basis and other senior managers of CSHL and the Company will meet on a regular basis in order to plan the process of business implementation and synergy development (subject in each case to the observance of any legal obligation in relation to competition regulation).

8. GOVERNING LAW

The Acquisition Agreement is governed by the laws of England and Wales.

PART V
ADDITIONAL INFORMATION

1. RESPONSIBILITY STATEMENT

The Company and its Directors accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect its import.

2. RELEVANT DOCUMENTATION

The following disclosures in the Prospectus are incorporated by reference into this document:

Information	Sections of the Prospectus incorporated by reference into the Circular	Page Number
Information on Mothercare	“Part 1: Information on Mothercare”	20
Details as to the holding of Shares in uncertificated form	“Part 9: Additional Information”	160
Service Contracts of the Mothercare Directors	“Part 9: Additional Information”	173
Details of the Mothercare Directors’ interests in Shares	“Part 9: Additional Information”	170
Major interests in Shares	“Part 9: Additional Information”	173
Mothercare related party transactions	“Part 9: Additional Information”	202
Details of Mothercare material litigation	“Part 9: Additional Information”	194
The significant change statement of Mothercare	“Part 9: Additional Information”	193
Details of Mothercare material contracts	“Part 9: Additional Information”	194
Financial Information on Mothercare	“Part 6: Financial Information on Mothercare”	56
Financial Information on CSHL and Early Learning Holdings Limited	“Part 7: Financial Information on CSHL and Early Learning Holdings Limited”	93
Details of CSHL material contracts	“Part 9: Additional Information”	194
The significant change statement of CSHL	“Part 9: Additional Information”	193
Pro Forma Statement of Net Assets of the Enlarged Mothercare Group	“Part 8: Pro Forma Statement of Net Assets of the Enlarged Mothercare Group”	155
Documents for Inspection	“Part 9: Additional Information”	202

3. THE NEW MOTHERCARE SHARES

The New Mothercare Shares will be issued credited as fully paid and will rank equally in all respects with the Shares in issue at the time the New Mothercare Shares are allotted pursuant to the Proposed Acquisition, including the right to receive and retain dividends and other distributions (if any) paid by reference to a record date after Admission.

If the Resolutions are approved and if all other conditions to the Proposed Acquisition have been either satisfied or waived, it is anticipated that the New Mothercare Shares will be issued on or about 19 June 2007. Admission is expected to be effective on 20 June 2007, subject to the relevant anti-trust clearances having been granted by that date.

For details as to holding in uncertificated form, paragraph 3.7 of “Part 9: Additional Information” of the Prospectus is incorporated by reference.

4. WORKING CAPITAL

The Company is of the opinion that, taking into account the bank facilities available and existing cash resources, the Enlarged Mothercare Group has sufficient working capital for its present requirements, that is, for at least the 12 months following the date of publication of this document.

5. CONSENT

Citigroup Global Markets Limited has given and has not withdrawn its written consent to references in this document to its name in the form and context in which they appear.

Deloitte & Touche LLP, whose registered address is at 180 Strand, London WC2R 1BL, is a member of the Institute of Chartered Accountants in England and Wales and has given and has not withdrawn its written consent to the incorporation by reference in this document of its reports set out in “Part 6: Financial Information on Mothercare”, “Part 7: Financial Information on CSHL and Early Learning Holdings Limited” and “Part 8: Unaudited Pro Forma Statement of Net Assets of the Enlarged Mothercare Group” of the Prospectus respectively and the references to its reports and its name in the form and context in which they are respectively included and has authorised the content of its reports.

6. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of all documents referred to in paragraph 21 of “Part 9: Additional Information” of the Prospectus and the written consents referred to in paragraph 5 above will be available for inspection at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ during normal business hours on each Business Day from the date of this document up to and including the date of the EGM.

They will also be available for inspection at Mothercare plc, Cherry Tree Road, Watford, Hertfordshire, WD24 6SH from at least 15 minutes prior to the EGM until the conclusion of that meeting.

Dated: 25 May 2007

PART VI

DEFINITIONS

In this document the following expressions have the following meanings unless the context otherwise requires:

“2003 Financial Year”	the Mothercare financial year for the 52 week period ended 29 March 2003
“2006 Financial Year”	the Mothercare financial year for the 53 week period ended 1 April 2006
“2007 Financial Year”	the Mothercare financial year for the 52 week period ended 31 March 2007
“2008 Financial Year”	the Mothercare financial year for the 52 week period ended 29 March 2008
“2009 Financial Year”	the Mothercare financial year for the 52 week period ending 28 March 2009
“Acquisition Agreement”	the acquisition agreement between the Company, CSHL and the CSHL Shareholders dated 27 April 2007
“Act”	the Companies Act 1985 of England and Wales (as amended)
“Adjusted EBITA”	EBITA before exceptional items and the impact of fair value accounting under IAS 39 and, additionally in the case of the CSHL Group, before Daisy & Tom losses from operations and non continuing investor costs
“Adjusted EBITDA”	EBITDA before exceptional items and the impact of fair value accounting under IAS 39 and, additionally in the case of the CSHL Group, before Daisy & Tom losses from operations and non continuing investor costs
“Admission”	Admission to Listing and Admission to Trading and a reference to Admission becoming “effective” is to be construed in accordance with the Listing Rules or the Standards (as applicable)
“Admission to Listing”	the admission to listing on the Official List of the New Mothercare Shares
“Admission to Trading”	the admission to trading on the London Stock Exchange’s market for listed securities of the New Mothercare Shares
“Articles of Association” or “Articles”	the articles of association of the Company
“Board”	the board of directors of the Company
“Business Day”	any day (other than a Saturday or Sunday) on which banks generally are open for business in London
“Circular”	this document
“Citi”	Citigroup Global Markets Limited
“Closing Price”	the closing middle market quotation of a Share as derived from the Official List
“Company” or “Mothercare”	Mothercare plc
“CREST”	the system for paperless settlement of trades in listed securities, of which CRESTCo Limited is the operator

“CSHL”	Chelsea Stores Holdings Limited, a company registered in England and Wales, whose registered office is 2 nd Floor Burdett House, 15-16 Buckingham Street, London WC2N 6DU (registered number 05071053)
“CSHL Group”	CSHL and its subsidiaries and subsidiary undertakings
“CSHL Shareholders”	the existing shareholders of CSHL
“DCT”	D.C. Thomson & Company Limited
“Deloitte”	Deloitte & Touche LLP
“Directors”	the Executive Directors and the Non-Executive Directors
“EBIT”	profits before financing and taxation
“EBITA”	profits before financing, taxation and the amortisation of intangible assets
“EBITDA”	profits before financing, taxation, depreciation and the amortisation of intangible assets
“EGM” or “Extraordinary General Meeting”	the extraordinary general meeting of Mothercare to be held at 11.00 a.m. on 14 June 2007 (or any adjournment thereof), notice of which is set out at the end of this document
“ELC”	Early Learning Centre
“Enlarged Mothercare Group”	the Mothercare Group and the CSHL Group following completion of the Proposed Acquisition
“Executive Directors”	Ben Gordon and Neil Harrington
“Form of Proxy”	the form of proxy for use by Shareholders in relation to the EGM
“FSA”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part IV of FSMA
“FSMA”	Financial Services and Markets Act 2000, as amended
“IAS 39”	International Accounting Standard 39 (Financial instruments: Recognition and measurement)
“IFRS”	International Financial Reporting Standards as adopted for use in the European Union
“Ireland”	the island of Ireland excluding Northern Ireland
“Listing Rules”	the rules and regulations made by the FSA under Part VI of FSMA
“London Stock Exchange”	London Stock Exchange Plc
“Mothercare Group”	Mothercare and its subsidiaries and subsidiary undertakings (excluding CSHL and the CSHL Group)
“New Mothercare Shares”	Shares to be issued by the Company pursuant to the Acquisition Agreement
“Non-Executive Directors”	Karren Brady, Bernard Cragg, David Williams and the non-executive Chairman Ian Peacock
“Northern Ireland”	the counties of Antrim, Armagh, Derry, Down, Fermanagh and Tyrone on the island of Ireland
“Official List”	the Official List of the FSA
“Proposed Acquisition”	the proposed acquisition by Mothercare of the entire issued and to be issued share capital of CSHL

“Prospectus”	means the prospectus published by Mothercare dated 25 May 2007 which contains information relating to Mothercare and CSHL required by the Prospectus Rules
“Prospectus Rules”	rules published by the FSA under section 73A FSMA
“Record Date”	6.00 p.m. on 12 June 2007
“Resolutions”	the ordinary resolutions to approve the Proposed Acquisition, to increase Mothercare’s share capital and to authorise the allotment of the New Mothercare Shares, set out in the EGM notice at the end of this Circular
“Rhône”	Rhône Capital II L.P.
“Shareholder”	a holder of Shares
“Shares”	ordinary shares of 50 pence each in the capital of the Company
“Standards”	the Admission and Disclosure Standards of the London Stock Exchange
“UK or United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK GAAP”	generally accepted accounting principles in the United Kingdom

In this document, words denoting any gender include all genders (unless the context otherwise requires).

NOTICE OF EXTRAORDINARY GENERAL MEETING



Mothercare plc

(Incorporated in England and Wales under the Companies Act 1985 with registered number 01950509)

Notice is hereby given that an Extraordinary General Meeting of Mothercare plc (the “Company”) will be held at Mothercare, Cherry Tree Road, Watford, Hertfordshire WD24 6SH on 14 June 2007 at 11.00 a.m. for the purpose of considering, and if thought fit, passing the following resolutions which will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

1. THAT, subject to Resolutions 2 and 3 being passed, the proposed acquisition of the entire issued and to be issued share capital of Chelsea Stores Holdings Limited (the “Proposed Acquisition”) pursuant to the Acquisition Agreement (as defined in the circular of the Company dated 25 May 2007 accompanying this notice (the “Circular”)) and the associated and ancillary arrangements contemplated by the Acquisition Agreement and/or described in the Circular be and are hereby approved and that the Directors of the Company (or any duly authorised committee thereof) be and are hereby authorised to take all such steps as may be necessary or desirable in relation thereto and to implement the same with such non-material modifications, variations, revisions, waivers or amendments as the Directors or any such committee may deem necessary, expedient or appropriate.
2. THAT the authorised share capital of the Company be and is hereby increased from £47,883,706.50 to £52,500,000 by the creation of an additional 9,232,587 ordinary shares of 50 pence each ranking equally in all respects with the existing ordinary shares of 50 pence each in the capital of the Company.
3. THAT, subject to Resolution 2 being passed, in addition, and without prejudice, to all existing authorities the Directors be and are hereby generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to a maximum aggregate nominal amount of £6,944,000 in connection with the Proposed Acquisition. This authority shall expire on the second anniversary of the date on which this Resolution is passed.

By order of the Board

Clive Revett
Company Secretary

25 May 2007

Registered office:
Cherry Tree Road
Watford
Hertfordshire
WD24 6SH

Notes:

1. A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. The proxy need not be a member of the Company.
2. To be effective the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is executed (or a notarially certified copy of such power or authority) must be deposited with Lloyds TSB Registrars, The Causeway, Worthing, BN99 8UF by 11.00 a.m. on 12 June 2007. A pink form of proxy is enclosed with this notice. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting.
3. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the register of members of the Company as at 6.00 p.m. on 12 June 2007 (or, if this meeting is adjourned, in the register of members as at 6.00 p.m. on the day two days before the date of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 6.00 p.m. on 12 June 2007 (or, if this meeting is adjourned, in the register of members after 6.00 p.m. on the day two days before the date of the adjourned meeting) shall be disregarded in determining the rights of any person to attend or vote at the meeting.
4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Extraordinary General Meeting to be held on 14 June 2007 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a “CREST Proxy Instruction”) must be properly authenticated in accordance with CRESTCo’s specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer’s agent (7RA01) by the latest time(s) for receipt of proxy appointments specified in this notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer’s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

5. Shareholders who would prefer to register the appointment of their proxy electronically via the internet can do so through Lloyds TSB Registrars’ website at www.sharevote.co.uk using their personal Authentication Reference Number (this is the series of 24 numbers printed under the shareholder’s name on the proxy form). Alternatively, shareholders who have already registered with Lloyds TSB Registrars’ online portfolio service Shareview can appoint their proxy electronically by logging on to their portfolio at www.shareview.co.uk and clicking on ‘Company Meetings’. Full details and instructions on these electronic proxy facilities are given on the websites. Please note that any electronic communication found to contain a computer virus will not be accepted.

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