

HEADLINE

Group Limited

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For immediate release to the market

MERGER TRANSACTION

Please find attached for release to the market a letter from the Company's Executive Chairman regarding a transaction between Skansen Pty Limited and the Kids Central Group.

Headline Group Limited



Ian Gordon
Company Secretary

On behalf of the Board, I am pleased to announce that the Headline Group Limited ("HLD" or "the Company") is in the final stages of closing a transaction between Skansen Pty. Ltd. – the "home" of Beanie Kids – and the Kids Central Group www.kidscentral.com.au ("Kids Central" or "KC").

KC has the rights in Australia and New Zealand to one of the world's pre-eminent toy brands, ELC (The Early Learning Centre). Today, KC distributes ELC predominantly through its own network of toy retail locations, generating revenue of \$30.5M in 2008/09. KC also has the exclusive rights to Mothercare www.mothercare.co.uk in Australia, which it plans to begin rolling out with Skansen's support in the first quarter of 2010.

The strategic rationale for the transaction is the significant synergy that may be extracted by merging the Beanie Kids and ELC/Kids Central operations. From a revenue perspective, there are mutual benefits. KC will become an important distribution channel for Beanie Kids in areas where the Australian market requires further penetration. Skansen will in turn assist KC to substantially increase the wholesale distribution of the ELC toy product range via penetration of its network of 600 independent gift and toy retailers. Internationally, ELC is aggressively pursuing wholesale sales growth, and Skansen is an excellent vehicle for the brand to achieve this strategic objective in Australia.

In addition, there is cost duplication across the Skansen and KC/ELC organizations. Savings have been identified in the areas of marketing management (ELC and Beanie Kids target similar children's age segments), logistics and warehousing, and in finance and administration.

An additional significant synergy opportunity is in online business development. We continue to emphasize the importance of the online business in our Beanie Kids strategy, and the KC business would deliver an immediately expanded e-commerce presence. ELC and KC already achieve \$1.2M of online revenue and this figure is growing profitably at over 50% p.a.

Apart from the synergistic revenue opportunities outlined, we anticipate that very substantial growth for the merged Skansen–KC entity will come from the rollout of Mothercare in Australia. Mothercare will be launched in the first quarter of next year via retail parenting centres as well as online and wholesale operations. Mothercare is one of the largest international players in the babies, children and maternity product segments with worldwide sales of AUD\$1.5 billion. International expansion is a key element of the Mothercare strategy; the company achieved international growth of 41% in 2008/09. Establishing a substantial footprint in Australia remains an important strategic objective for Mothercare. Jerry Cull, Mothercare's director responsible for driving the accelerated globalisation of both Mothercare and ELC, has expressed his enthusiasm and support for the additional management and financial strength that Skansen and HLD bring to the ELC/KC operation, and to the imminent roll-out of Mothercare in Australia.

The Skansen–Kids Central transaction will merge the two operations under the following terms:

- Skansen will initially own 68% of the merged entity, with KC's current shareholders and management owning the remaining 32%.
- HLD will invest \$5M into the business via a convertible note structure.
- KC's shareholders will retain a \$2.5M convertible note in the business.
- HLD will have the option to invest a further \$2M on the same terms should the speed of the Mothercare rollout be accelerated and require additional funding.

The transaction will be subject to necessary approvals.

The Skansen–KC merged entity is projected to achieve revenues and EBIT of \$40.5M and \$3.2M respectively in 09/10. There will be additional investment in resources and marketing associated with the Mothercare launch that will impact this result, but in year two of operations we anticipate that the company will achieve an EBITDA/Sales margin of 10%.

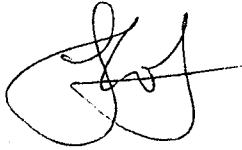
To augment the management expertise that will drive the success of the merged Skansen – KC entity, Mr. Ross Bartlett will join the HLD Board once the transaction has closed. Ross's past senior management roles & retail experience include Coles Myer as General Manager Merchandise & Marketing for Kmart, and responsibility for Strategic Planning, Buying & Brand management for Australasia. His teams were responsible for the creation & development of such brands as Jackaroo and Australia's Choice. Ross's experience will make a substantial contribution to the Board as it works

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with management to drive success in expanding the merged entity.

The Board of HLD is very much looking forward to the growth and profitability that this transaction will bring to the Skansen operations. The initiative will deliver substantial value creation to HLD, and will ultimately return the company to the point where dividends can recommence.

Thank you.

A handwritten signature in black ink, appearing to be 'Gordon Elkington', written in a cursive style.

Gordon Elkington
Executive Chairman
22 June 2009

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