Interim Report

For the Half Year ended

28 February 2016

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CHAIRMAN'S ADDRESS

The 26 weeks period ended 28 February 2016 closed with a pre-tax profit for the Group of $32,000 (same period last year: $57,000). At 28 February 2016, shareholders' funds were $6,916,000 (or $3.37 per share) after the share cancellation on 26 February 2016.

Key contributors to this result were:

- a much better realisation of our stock than we had anticipated; and
- full recognition of our outstanding lease commitments for the remainder of their current terms.

These matters are further discussed below.

As shareholders are well aware, the most significant event of the first half of the financial year was the closure, on 16 January 2016, of the Lambton Quay store in Wellington. With the closure of the Lambton Quay store, the Group discontinued its retail operations after a long history. As the Group had previously discontinued its property operations in October 2014 following the sale of the Harbour City Centre building, the Group no longer has ongoing business activities and the directors do not intend to commence any business or enter into any new commitment.

On 1 February 2016 the Group settled the sale and purchase agreement with David Jones that was entered into on 4 June 2016. Pursuant to the sale and purchase agreement, the Group:

- assigned the lease of its Lambton Quay store to David Jones;
- sold the Kirkcaldie & Stains' name and associated trademarks for AUD 400,000 (NZD 428,000) to David Jones; and
- deposited $2 million into its solicitors' trust account on interest bearing deposit. The escrowed funds will be held for a period of one year and provides a fund which gives comfort to David Jones in the event of a claim against the Group for breach of the agreement.

As previously communicated retail stock was not included in the sale to David Jones and as such we formulated and implemented a plan to progressively reduce our retail stock with the aim to achieve a nil or close to nil stock level by the end of January 2016.

We were very successful with our strategy thanks to the ongoing support and collaboration of our suppliers, concessions and the outstanding performance of the Kirks' team. All stock was sold, and at better than expected retail margins.

On 26 February 2016, Kirkcaldie & Stains received a takeover notice from Mercantile NZ Limited to purchase 100% of its ordinary shares for $2.75 in cash per share (the 'Offer'). On 1 April 2016 the Group issued a Target Company Statement in relation to the Offer with a recommendation to shareholders to reject the Offer. The directors estimated in the Target Company Statement that a residual value of $2.99 to $3.49 per share could be achieved on winding up Kirkcaldie & Strains. This conclusion was supported by Northington Partners who the directors appointed as independent adviser in relation to the Offer.

In the event the takeover bid from Mercantile NZ Limited is unsuccessful, once all leases have been assigned and/or surrendered, the Group will hold mainly cash and have no business activities. Although the directors have not yet made a formal decision, a solvent liquidation process appears to be the most likely method for returning value to shareholders. The estimates in the Target Company Statement were based on this scenario.

The main factor which will determine the final residual value available for distribution to shareholders is the resolution of the Group's outstanding lease commitments and in particular of the lease for warehouse and office space in Petone, Lower Hutt.

At 28 February 2016 the Group recognised an onerous contract provision of $1,745,000 representing the future rental payment obligations under the outstanding lease commitments. Of this amount, $1,325,000 relates to the Petone premises where the future rental payments until the lease expiry date have been discounted using the 5-year government bond yield.

At 28 February 2016, the Group was in advanced negotiations with the landlord of the Petone premises to enter into a conditional deed of surrender of lease. The deed, which was entered on 8 March 2016, was conditional to the landlord selling the property. Unfortunately on 1 April 2016, the Group was advised by the landlord that the sale of the property did not eventuate and the deed consequently came to an end. The proposed purchaser has been in ongoing discussions with the Kirkcaldie & Stains and the property owner to see how an alternative deal might be structured. Other interest in the Petone property has also been shown and continues. As at today, however, no transaction has been concluded.

The Group is in currently in negotiation with the landlord of the retail premises at 26 Brandon Street, Wellington to enter into a conditional deed of surrender of lease. The deed will be conditional on the landlord entering a new lease with a prospective tenant, and separately on David Jones reinstating the wall between their premises and the premises of the Pantry lease by 31 May 2016. The landlord and the prospective tenant are currently negotiating the main terms of the new lease, and David Jones is making good progress with the consenting process for the reinstatement work.

On behalf of the board, I would like to thank our staff, suppliers, concessions, tenants, advisers and customers for supporting Kirkcaldie & Stains and its store until the end: their contribution and on-going efforts had been pivotal to the successful closure.

I also thank our shareholders for their support and patience over the last few challenging years.

Falcon Clouston - Chairman

CONSOLIDATED BALANCE SHEET
AS AT 28 FEBRUARY 2016

	Note	As at 28 Feb 2016 Unaudited $'000	As at 1 Mar 2015 Unaudited $'000	As at 30 Aug 2015 Audited $'000
ASSETS				
Non-current assets				
Plant and equipment	7	-	850	-
Intangible assets	7	-	40	-
Deferred tax asset		-	231	-
Trade and other receivables		21	149	99
		21	1,270	99
Current assets				
Plant and equipment	7	51	-	62
Income tax receivable		526	-	408
Inventories	8	-	6,816	4,371
Escrowed funds	9	2,000	-	-
Receivable from Harbour City Centre Limited		-	4,484	4,704
Trade and other receivables		548	2,412	1,579
Cash and cash equivalents		25,370	19,858	21,461
		28,495	33,570	32,585
Total assets		**28,516**	**34,840**	**32,684**
EQUITY				
Capital and reserves				
Share capital	10	124	19,477	19,477
Treasury stock	10	-	(113)	(78)
Retained earnings		6,792	10,761	6,770
Total equity		6,916	30,125	26,169
LIABILITIES				
Current liabilities				
Provisions	11	1,838	-	2,750
Current tax liability		-	386	-
Trade and other payables	12	19,762	4,329	3,765
Total liabilities		21,600	4,715	6,515
Total equity and liabilities		**28,516**	**34,840**	**32,684**

On behalf of the board

F Clouston – Chairman

M Curtis – Director

Authorised for issue on 8 April 2016

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2016

	Note	**6 months to 28 Feb 2016** Unaudited *$'000* Discontinued operation	**6 months to 1 Mar 2015** Unaudited *$'000*	**12 months to 30 Aug 2015** Audited *$'000*
Revenue		10,271	17,495	31,928
Cost of sales	8	(6,245)	(9,896)	(19,189)
Gross profit		**4,026**	**7,599**	**12,739**
Marketing expenses		(417)	(858)	(1,594)
Selling expenses		(2,068)	(2,998)	(6,650)
Operating expenses		(1,857)	(2,640)	(5,056)
Administrative expenses		(1,396)	(1,945)	(4,284)
Other expenses		(8)	(14)	(119)
Other income	13	1,555	1,049	1,982
Operating (loss) profit before impairment and fair value gains (losses)		**(165)**	**193**	**(2,982)**
Fair value gains (losses)		46	(44)	(90)
Impairment losses		-	(266)	(322)
Onerous contract expense		(266)	-	(1,478)
Operating loss		**(385)**	**(117)**	**(4,872)**
Net interest income		417	174	555
Profit (loss) before tax		**32**	**57**	**(4,317)**
Income tax expense		-	(558)	(140)
Net profit (loss) for the period attributable to shareholders		**32**	**(501)**	**(4,457)**
Profit (loss) per share *(cents)*		1.56	(4.90)	(43.63)
Shares on issue *(thousands)*	10	2,050	10,250	10,250
Net tangible assets per share *($)*		3.37	2.94	2.55

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2016

	6 months to 28 Feb 2016 Unaudited *$'000* Discontinued operation	**6 months to 1 Mar 2015** Unaudited *$'000*	**12 months to 30 Aug 2015** Audited *$'000*
Net profit (loss) for the period attributable to shareholders	32	(501)	(4,457)
Other comprehensive income	-	-	-
Total comprehensive income (expense) attributable to shareholders	**32**	**(501)**	**(4,457)**

The above consolidated income statement and consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2016

	Note	Share capital $'000	Revaluation Reserve $'000	Treasury stock $'000	Retained earnings (accumulated losses) $'000	Total equity $'000
Audited balance at 30 August 2015		19,477	-	(78)	6,770	26,169
Comprehensive income for the period		-	-	-	32	32
Capital return and share cancellation	10	(19,353)	-	68	-	(19,285)
Revaluation of treasury stock	10	-		10	(10)	-
Unaudited balance at 28 February 2016		**124**	**-**	**-**	**6,792**	**6,916**
Audited balance at 31 August 2014		19,477	17,689	(113)	(6,427)	30,626
Comprehensive expense for the period		-	-	-	(501)	(501)
Transfers		-	(17,689)	-	17,689	-
Unaudited balance at 1 March 2015		**19,477**	**-**	**(113)**	**10,761**	**30,125**
Comprehensive expense for the period		-	-	-	(3,956)	(3,956)
Revaluation of treasury stock	10	-	-	35	(35)	-
Audited balance at 30 August 2015		**19,477**	**-**	**(78)**	**6,770**	**26,169**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 28 FEBRUARY 2016

	Note	**6 months to 28 Feb 2016** Unaudited *$'000* Discontinued operation	**6 months to 1 Mar 2015** Unaudited *$'000*	**12 months to 30 Aug 2015** Audited *$'000*
Cash flows from operating activities				
Receipts from customers		11,231	16,685	31,761
Rent and concession income received		751	1,040	1,658
Payments to suppliers and employees		(11,324)	(17,532)	(32,008)
Interest paid		(1)	(140)	(143)
(Payment) receipt of GST		(354)	25	177
Income tax paid		(118)	(259)	(404)
Net cash flows from operating activities	14	**185**	**(181)**	**1,041**
Cash flows from investing activities				
Interest received		418	314	698
Escrowed funds	9	(2,000)	-	-
Proceeds from sale (payments for) plant and equipment	7	128	(59)	(266)
Payments for intangible assets	7	-	(250)	(46)
Proceeds from sale of Kirkcaldie & Stains name	7	428	-	-
Proceeds from sale of property		4,750	40,625	40,625
Net cash flows from investing activities		**3,724**	**40,630**	**41,011**
Cash flows from financing activities				
Repayment of from term borrowing		-	(23,500)	(23,500)
Net cash flows from financing activities		**-**	**(23,500)**	**(23,500)**
Net increase in cash and cash equivalents		**3,909**	**16,949**	**18,552**
Cash and cash equivalents at the beginning of the period		21,461	2,909	2,909
Cash and cash equivalents at the end of the period		**25,370**	**19,858**	**21,461**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kirkcaldie & Stains Limited (the 'Company') operated, until January 2016, a premium department store in Wellington, New Zealand. The department store permanently closed for trading on 16 January 2016. The Company has two subsidiaries (which, with the Company, comprise the 'Group'): Kirkcaldie & Stains Properties Limited and The Kirkcaldie & Stains Trustee Company Limited.

The Company is a profit oriented, limited liability company domiciled and incorporated in New Zealand. It is registered under the Companies Act 1993, but was first incorporated in 1901. The address of its registered office is 19 Regent Street, Petone, Lower Hutt 5012. The Company is listed on The New Zealand Stock Exchange (NZX) and it is an FMC Reporting Entity under Part 7 of the Financial Markets Conduct Act 2013.

The Group operates to accounting periods that end on Sundays. The interim period ended Sunday 28 February 2016. The comparative period ended Sunday 1 March 2015. The 2015 financial year ended on Sunday 30 August 2015. In the financial statements 'six months' or 'half year' refer to the 26 weeks periods ended 28 February 2016 and 1 March 2015; '12 months' or 'year' refer to the 52 weeks period ended 30 August 2015.

These interim financial statements were authorised for issue by the board of directors on 8 April 2016.

1.1 Sale of the Harbour City Centre

Kirkcaldie & Stains Properties Limited owned the Harbour City Centre building in the central business district of Wellington. The property, which consisted of one level of retail shops, six floors of commercial office space and associated car parking, was sold in October 2014.

1.2 Sale to David Jones Pty Limited

On 4 June 2015 Kirkcaldie & Stains Limited entered into a conditional Agreement for Sale and Purchase (the 'Agreement') with David Jones Pty Limited ('David Jones') for:

- the assignment of the Lambton Quay main store lease, and
- the acquisition of Kirkcaldie & Stains' name and trademarks for AUD 400,000 plus GST (if any).

(the 'Sale').

The Agreement became unconditional on 27 November 2015 upon David Jones receiving all necessary consents from the Overseas Investment Office. The Sale settled on 1 February 2016. As a result of the Sale, Kirkcaldie & Stains ceased its retail operations on 16 January 2016. The Group has no other business and the board does not intend to commence any business or enter into any new commitments.

1.3 Return of Capital

On 27 November 2015, the Group filed applications seeking orders from the High Court to approve a scheme of arrangement under Part 15 of the Companies Act 1993 to return $19.353 million of capital to shareholders. The orders were subject to the completion of the Sale to David Jones. Final orders from the High Court approving the scheme of arrangement were received on 10 February 2016. Pursuant to the scheme of arrangement the Group:

- cancelled four (4) in five (5) shares (with the number of shares cancelled rounded down to the nearest whole share) on 26 February 2016; and
- returned an amount of $2.3602 per share cancelled, subsequent to period end, on 29 February 2016.

1.4 Takeover Notice from Mercantile NZ Limited

On 26 February 2016, the Company received a takeover notice from Mercantile NZ Limited to purchase 100% of the ordinary shares in the Company not already held by Mercantile NZ Limited for $2.75 in cash per share (note 17).

In the event the takeover bid from Mercantile NZ Limited is unsuccessful, once all remaining leases have been assigned, the Company will have no business activities, other than holding cash and other liquid investments. Although the board has not yet made a formal decision, a solvent liquidation process appears to be the most likely method for returning value to shareholders.

2. BASIS OF PREPARATION

The interim financial statements of the Group for the 26 weeks ended 28 February 2016 have been prepared in accordance with General Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with NZ IAS 34 'Interim Financial Reporting' and IAS 34 'Interim Financial Reporting'. These interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 August 2015. The financial statements for the six months ended 28 February 2016 and for the year ended 30 August 2015 have been prepared on a realisation basis.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies that materially affect the measurements of the interim financial statements have been applied on a consistent basis with those used in the audited financial statements for the year ended 30 August 2015 and the unaudited interim financial statements for the period ended 1 March 2015.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Application of the Group's accounting policies requires the use of estimates. The estimates are based on historical experience and other factors that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the actual results. Of the areas of significant estimation and critical judgment disclosed in the financial statements for the year ended 30 August 2015, only 'Provisions' remains applicable at the reporting date (note11).

5. SEASONALITY OF OPERATIONS

In the comparative periods, the Company's revenue followed a seasonal pattern with higher sales typically achieved in the first half of the financial year as a result of additional sales generated during the Christmas trading period.

6. SEGMENTAL INFORMATION

Management has determined the operating segments based on the reports reviewed by the board of directors for the purpose of allocating resources and assessing performance.

The Group operated in two main reportable business segments:

- Retail (discontinued operation) – until 16 January 2016, the operation of a premium retail department store
- Property (discontinued operation) – until 7 October 2014, the lease of commercial space in owned premises.

All operations were located in Wellington, New Zealand.

Segment profit/loss represents the profit/loss earned/suffered by each segment and reflects the income statements associated with Kirkcaldie & Stains Limited and Kirkcaldie & Stains Properties Limited.

Other expenses are shown net of other income and intersegment transitions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Segmental information for the six months ended 28 February 2016 (unaudited)

	Note	Retail Discontinued operation $'000	Property Discontinued operation $'000	Unallocated $'000	Reconciliations $'000	Group $'000
Revenue from external customers		10,271	-	-	-	10,271
Expenses (net of other income)		(10,690)	7	-	-	(10,683)
Fair value gains		-	46	-	-	46
Impairment losses		(11)	-	-	11	-
Other expenses		(8)	-	-	-	(8)
Earnings before interest, depreciation and amortisation		(438)	53	-	11	(374)
Depreciation		(11)	-	-	-	(11)
Profit (loss) before interest and tax		(449)	53	-	11	(385)
Interest revenue		75	343	-	-	418
Interest expense		(1)	-	-	-	(1)
Profit (loss) before tax		(375)	396	-	11	32
Income tax expense		-	-	-	-	-
Profit (loss) for the period		**(375)**	**396**	**-**	**11**	**32**
Assets						
Plant and equipment	7	51	-	-	-	51
Investment in subsidiaries and receivables from subsidiaries		78	-	(416)	338	-
Income tax receivable		255	271	-	-	526
Other		25,140	2,799	-	-	27,939
Total assets		**25,524**	**3,070**	**(416)**	**338**	**28,516**
Liabilities						
Payable to subsidiary		16,773	(16,773)	-	-	-
Deferred tax (asset) liability		(3)	3	-	-	-
Other liabilities		21,575	25	-	-	21,600
Total liabilities		**38,345**	**(16,745)**	**-**	**-**	**21,600**
Capital expenditure		**-**	**-**	**-**	**-**	**-**

Segmental information for the six months ended 1 March 2015 (unaudited)

		Retail $'000	Property $'000	Unallocated $'000	Reconciliations $'000	Group $'000
Revenue from external customers		17,091	404	-	-	17,495
Expenses (net of other income)		(16,472)	(243)	(83)	-	(16,798)
Fair value losses		-	(310)	-	-	(310)
Other expenses		(14)	-	-	-	(14)
Earnings before interest, depreciation and amortisation		605	(149)	(83)	-	373
Depreciation		(332)	-	-	-	(332)
Amortisation		(158)	-	-	-	(158)
(Loss) profit before interest and tax		115	(149)	(83)	-	(117)
Interest revenue		35	279	-	-	314
Interest expense		(5)	(135)	-	-	(140)
Profit (loss) before tax		145	(5)	(83)	-	57
Income tax expense		(549)	(9)	-	-	(558)
(Loss) for the period		**(404)**	**(14)**	**(83)**	**-**	**(501)**
Assets						
Plant and equipment	7	850	-	-	-	850
Intangible assets	7	40	-	-	-	40
Deferred tax asset		230	1	-	-	231
Investment in subsidiaries and receivable from subsidiaries		720	(596)	(416)	292	-
Other		12,584	21,135	-	-	33,719
Total assets		**14,424**	**20,540**	**(416)**	**292**	**34,840**
Liabilities						-
Income tax payable (receivable)		(1,133)	1,519	-	-	386
Other liabilities		4,319	10	-	-	4,329
Total liabilities		**3,186**	**1,529**	**-**	**-**	**4,715**
Capital expenditure		**309**	**-**	**-**	**-**	**309**

NOTES TO THE FINANCIAL STATEMENTS (continued)

Segmental information for year ended 30 August 2015 (audited)

	Note	Retail Discontinued operation	Property Discontinued operation	Unallocated	Reconciliations	Group
		$'000	$'000	$'000	$'000	$'000
Revenue from external customers		31,524	404	-	-	31,928
Expenses (net of other income)		(35,143)	(244)	-	-	(35,387)
Fair value losses		-	(90)	-	-	(90)
Impairment losses		(357)	-	-	35	(322)
Other expenses		(119)	-	-	-	(119)
Earnings before interest, depreciation and amortisation		(4,095)	70	-	35	(3,990)
Depreciation		(796)	-	-	-	(796)
Amortisation		(86)	-	-	-	(86)
(Loss) profit before interest and tax		(4,977)	70	-	35	(4,872)
Interest revenue		70	628	-	-	698
Interest expense		(8)	(135)	-	-	(143)
(Loss) profit before tax		(4,915)	563	-	35	(4,317)
Income tax (expense) benefit		28	(168)	-	-	(140)
(Loss) profit for the period		**(4,887)**	**395**	**-**	**35**	**(4,457)**
Assets						
Plant and equipment	7	62	-	-	-	62
Investment in subsidiaries and receivables from subsidiaries		4,260	(4,171)	(416)	327	-
Income tax receivable (payable)		256	152	-	-	408
Other		10,589	21,625	-	-	32,214
Total assets		**15,167**	**17,606**	**(416)**	**327**	**32,684**
Liabilities						
Payable to subsidiary		1,835	(1,835)	-	-	-
Deferred tax (asset) liability		3	(3)	-	-	-
Other liabilities		6,489	26	-	-	6,515
Total liabilities		**8,327**	**(1,812)**	**-**	**-**	**6,515**
Capital expenditure		**312**	**-**	**-**	**-**	**312**

7. PLANT & EQUIPMENT AND INTANGIBLE ASSETS

At 28 February 2016 the Group had disposed of all its impaired retail fixed assets. Some of the retail fixed assets were sold during January 2016 for $128,000 with the remainder sold to David Jones for $1 on 1 February 2016.

At 28 February 2016 the only items of plant and equipment still remaining were motor vehicles, and fixtures and fittings related to the premises at 19 Regent Street, Petone, Lower Hutt. The fair value less cost to sell of these fixtures and fittings is estimated to be nil.

On 1 February 2016, the Group sold the name Kirkcaldie & Stains and associated trademarks to David Jones for AUD400,000 (NZD428,000). The value of the name Kirkcaldie & Stains was not recognised as an asset in the financial statements.

The proceeds from the sale of plant and equipment, the name Kirkcaldie & Stains and associated trademarks have been recognised in the Income Statement under 'Other income' (note 13).

8. INVENTORIES

	As at 28 Feb 2016 Unaudited *$'000*	**As at 1 Mar 2015** Unaudited *$'000*	**As at 30 Aug 2015** Audited *$'000*
Finished goods held for sale	-	7,750	5,650
Inventory adjustments	-	(934)	(1,279)
Total Inventories	**-**	**6,816**	**4,371**
Cost of inventories expensed and included in 'cost of sales'	7,272	9,726	18,543
Amount of inventory adjustments included in 'cost of sales'	(1,027)	170	646
Cost of sales	**6,245**	**9,896**	**19,189**

9. ESCROWED FUNDS

On 1 February 2016, pursuant to the Sale and Purchase Agreement with David Jones, the Group deposited $2 million into its solicitors' trust account on interest bearing deposit. The escrowed funds will be held for a period of one year and provides a fund which gives comfort to David Jones in the event of a claim against the Group for breach of the agreement. Any claim by David Jones on the escrowed funds must be made within 12 months of the completion of the agreement, and would have the effect of deferring the release of the escrowed funds. In the absence of a claim being made the escrowed funds will be released to the Group on or before 1 February 2016.

David Jones will review the escrow arrangements on completion of the Lambton Quay store refurbishment works to consider releasing all or some of the escrowed funds early.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. SHARE CAPITAL

	Number of shares					
	As at 28 Feb 2016	**As at 1 Mar 2015**	**As at 30 Aug 2015**	**As at 28 Feb 2016**	**As at 1 Mar 2015**	**As at 30 Aug 2015**
	Unaudited	Unaudited	Audited	Unaudited	Unaudited	Audited
	Thousands	*Thousands*	*Thousands*	*$'000*	*$'000*	*$'000*
Ordinary shares						
At beginning of the period	10,250	10,250	10,250	19,477	19,477	19,477
Shares cancelled and capital returned	(8,200)	-	-	(19,353)	-	-
At the end of the period	2,050	10,250	10,250	124	19,477	19,477
Treasury stock						
At the beginning of the period	(35)	(35)	(35)	(78)	(113)	(113)
Shares cancelled and capital returned	28	-	-	68		-
Revaluation of treasury stock	-	-	-	10	-	35
At the end of the period	(7)	(35)	(35)	-	(113)	(78)
Total	**2,043**	**10,215**	**10,215**	**124**	**19,364**	**19,399**

All ordinary shares are authorised, issued and fully paid. All ordinary shares rank equally with one vote attached to each share. Ordinary shares have no par value.

Treasury stock relates to the unallocated shares held by The Kirkcaldie & Stains Trustee Company Limited as trustee of an employee share purchase scheme which is now suspended.

On 27 November 2015, the Group filed applications seeking orders from the High Court to approve a scheme of arrangement under Part 15 of the Companies Act 1993 to return $19.353 million of capital to its shareholders. The orders were subject to the completion of the Sale to David Jones. Final orders from the High Court approving the scheme of arrangement were received on 10 February 2016.

Pursuant to the scheme of arrangement the Group:

- cancelled four (4) in five (5) shares (with the number of shares cancelled rounded down to the nearest whole share) on 26 February 2016; and
- returned an amount of $2.3602 per share cancelled, subsequent to period end, on 29 February 2016.

The Kirkcaldie & Stains Trustee Company Limited participated in the share cancellation and distribution. As a result 8,199,888 ordinary shares (8,171,208, excluding treasury stock) were cancelled on 26 February 2016 and $19,353,000 ($19,285,000, excluding treasury stock) paid to shareholders after balance date on 29 February 2016 (notes 12 and 17). Incidental to this, the Company on 29 February 2016 cancelled the remaining shares held in respect of its employee share scheme and will wind that scheme up (note 17).

The number of shares on issue at 28 February 2016, including treasury stock was 2,050,112 (1 March 2015 and 30 August 2015: 10,250,000).

11. PROVISIONS

	As at 28 Feb 2016 Unaudited $'000	As at 1 Mar 2015 Unaudited $'000	As at 30 Aug 2015 Audited $'000
Onerous contract provision recognised for:			
19 Regent Street, Petone, Lower Hutt	1,325	-	1,397
262 Thorndon Quay, Wellington	188	-	63
26 Brandon Street, Wellington	220	-	-
Other operating leases	12	-	18
Employee redundancy provision	93	-	1,272
Total	**1,838**	**-**	**2,750**

The Group holds a non-cancellable lease for warehouse and office space at 19 Regent Street, Petone, Lower Hutt, expiring on 30 April 2023. At 28 February 2016 the Group was in advanced negotiations with the landlord to enter into a conditional deed of surrender of lease. The deed, which was entered on 8 March 2016, was conditional to the landlord selling the property. Unfortunately on 1 April 2016, the Group was advised by the landlord that the sale of the property did not eventuate. The deed consequently came to an end (note 17). As such the Group at 28 February 2016 recognised a provision for the future discounted rental payments until the lease expiry date. The discount used is the 5-year government bond yield.

The Group also holds non-cancellable leases for retail spaces at 262 Thorndon Quay and 26 Brandon Street, Wellington expiring on 31 May 2017 and 22 December 2017 respectively. The Group is currently seeking to sub-lease or assign these leases. While the Group is currently in negotiations with a third party for the space at 26 Brandon Street, a sub-lessee or assignee has not yet been identified for 262 Thorndon Quay. At 28 February 2016 the Group recognised a provision equivalent to the future rental payments under the leases until their respective expiry dates (30 August 2015: five months for the 262 Thorndon Quay; nil for 26 Brandon Street).

12. TRADE AND OTHER PAYABLES

	Note	As at 28 Feb 2016 Unaudited $'000	As at 1 Mar 2015 Unaudited $'000	As at 30 Aug 2015 Audited $'000
Trade payables		173	2,172	1,955
Payable for capital return	10, 17	19,285	-	-
Employee entitlements		52	805	750
Accrued expenses		252	569	702
Unearned income [1]		-	533	358
Lease incentives (net of amortisation)		-	250	-
Total		**19,762**	**4,329**	**3,765**

1 Includes gift cards and Love Kirkcaldies points

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. OTHER INCOME

	6 months to 28 Feb 2016 Unaudited *$'000*	6 months to 1 Mar 2015 Unaudited *$'000*	12 months to 30 Aug 2015 Audited *$'000*
Wage subsidies	229	376	727
Advertising subsidies	6	146	219
Commission from concessions	678	490	952
Ministry of Social Development - Skills for industry training	-	-	7
Net foreign exchange gains	1	-	21
Sale of Kirkcaldie & Stains' name	428	-	-
Gain on disposal of plant and equipment	128	-	-
Sundry other income	85	37	56
Total	**1,555**	**1,049**	**1,982**

On 1 February 2016 the Company sold the name Kirkcaldie & Stains and associated trademarks to David Jones for AUD400,000 (NZD428,000). David Jones granted the Company the right to use the name Kirkcaldie & Stains and associated trademarks until the new David Jones Wellington store opens for trading following completion of the refurbishment works.

14. RECONCILIATION OF OPERATING CASH FLOWS

	6 months to 28 Feb 2016 Unaudited *$'000*	6 months to 1 Mar 2015 Unaudited *$'000*	12 months to 30 Aug 2015 Audited *$'000*
Profit (loss) after tax	**32**	**(501)**	**(4,457)**
Non-cash items			
Depreciation	11	332	796
Amortisation	-	158	86
(Gain) loss on disposal of assets	(556)	-	118
Fair value change in property under contact for sale	-	44	44
Impairment loss on property, plant and equipment	-	-	322
Movement in deferred tax	-	(231)	-
Other non-cash items	(46)	266	46
Items classified as investing activities			
Interest received	(418)	(314)	(698)
Movement in working capital items			
Trade and other payables (operating)	(3,288)	(764)	(1,329)
Provisions	(912)	-	2,750
Income tax receivable	(118)	530	(264)
Trade and other receivables	1,109	(182)	701
Inventories	4,371	481	2,926
Net cash flows from operating activities	**185**	**(181)**	**1,041**

15. COMMITMENTS

At the end of the reporting period, the future aggregate minimum payments under non-cancellable leases, not otherwise recognised in 'Provisions', were as follows:

	As at 28 Feb 2016 Unaudited *$'000*	As at 1 Mar 2015 Unaudited *$'000*	As at 30 Aug 2015 Audited *$'000*
Within one year	-	3,861	3,562
Between one and five years	-	14,482	13,533
More than five years	-	33,226	30,940
Total	**-**	**51,569**	**48,035**

16. CONTINGENCIES

On 1 February 2016 the Group assigned the lease for the main store at 165-177 Lambton Quay, Wellington to David Jones. Where a lease is assigned, the original lessee remains contingently liable for the lease obligations of the assignee and is not automatically released from its original obligations. This means that if David Jones was to fail to pay amounts due under the lease, the lessor would be entitled to require payment by the Group. The directors believe that David Jones is an excellent counterparty, therefore the likelihood of such a contingency becoming an actual liability is estimated to be low. The landlord of 165-177 Lambton Quay consented both to the assignment of the lease and the capital repayment, which endorse this assessment. The landlord confirmed that it will not oppose a voluntary liquidation of Kirkcaldie & Stains Limited; however should Kirkcaldie & Stains Limited continue as an entity (including under a different name or ownership) the contingent liability in the event of David Jones default will remain.

There were no other significant contingent liabilities and/or assets at the reporting date (1 March 2015: nil; 30 August 2015: nil).

17. POST BALANCE DATE EVENTS

On 29 February 2016, the Group paid $2.3602 for each share cancelled resulting in a total capital distribution to shareholders of $19,353,000. The Kirkcaldie & Stains Trustee Company Limited which, prior to the share cancellation, held 35,850 shares in the Company, participated in the cancellation and distribution. On 29 February 2016 the residual 7,170 shares held by The Kirkcaldie & Stains Trustee Company Limited were cancelled reducing the total number of shares on issue from 2,050,112 to 2,042,942.

On 8 March 2016 the Group entered into a conditional Deed of Surrender of Lease (the 'Deed') in relation to its leasehold premises at 19 Regent Street, Petone. Pursuant to the Deed a surrender payment of $400,000 and a real estate agent's commission of $50,000 plus GST were payable by the Group on the surrender date. In order for the Deed to become unconditional, the landlord's agreement to sell the Petone premises had to become unconditional. On 1 April 2016 the Group was advised by the landlord that the agreement to sell the Petone premises had been terminated by the proposed purchaser. The Deed came consequentially to an end and the Petone Lease remains in full force and effect. The directors continue to actively pursue opportunities to mitigate the ongoing commitments under the lease.

NOTES TO THE FINANCIAL STATEMENTS (continued)

On 18 March 2016 Mercantile NZ Limited sent to Kirkcaldie & Stains' shareholders a takeover offer to purchase all of the ordinary shares in the Company for $2.75 in cash per share (the 'Offer'). The Offer closes on 13 May 2016.

On 1 April 2016 the directors issued a Target Company Statement in response to the Offer, which included the following:

- The recommendation by the directors to reject the Offer on the basis that the Offer of $2.75 per share contrasts with the directors' estimated distribution range of $2.99 to $3.49 per share assuming a shareholder approved wind down of the Group commencing in the first half of the 2017 calendar year.
- An Independent Adviser Report ('IAR') assessing the merit of the Offer from the point of view of the Company's shareholders who are not associated with Mercantile. The IAR assesses the full underlying value of the Company's shares to be in a range between $3.26 and $3.44 per share, with a mid-point value of $3.35 per share.

DIRECOTRY

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Mr M G Curtis
Ms K L Prendergast

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Mrs O Del Sante-Bland - Acting Chief Executive Officer
Mrs D C Barry – Human Resources Manager (until 31 January 2016)
Ms T Seamark – Acting Store Manager (until 31 January 2016)
Mrs L I Tait – Promotions Manager (until 31 January 2016)

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