Market Announcement

27 April 2016

Update to shareholders and the market in response to Mercantile's increased offer

DO NOT SELL Recommendation remains unchanged

The Company sent its target company statement ('Target Company Statement') to shareholders on 1 April 2016 in response to Mercantile NZ Limited's ('Mercantile') takeover offer dated 15 March 2016 for all of the issued capital of the Company.

The directors recommended in the Target Company Statement that shareholders do not sell their shares.

Last Monday, 18 April 2016, the directors confirmed that recommendation, notwithstanding that the proposed transaction for the Petone lease did not proceed. The directors also announced a conditional transaction in respect of the lease of the 'Pantry' premises, which if the transaction proceeds will increase the low range of the directors' assessment of value available to shareholders in a liquidation from $2.99 to $3.08.

Mercantile's increased offer and extended Closing Date

Yesterday, 26 April 2016, Mercantile announced that it had increased its offer from $2.75 to $3.00 (or one cent above the directors' original assessment of the low end range of value available to shareholders in a liquidation - being $2.99).

Mercantile also extended the Closing Date of its offer to 12 June 2016 (although in certain circumstances this date may be further extended).

Directors' recommendation remains unchanged for the meantime

In the directors' opinion the revised price offered by Mercantile remains at a level which the directors are presently unable to recommend. Accordingly their original **Do Not** sell recommendation remains in place.

As was the case last Monday 18 April 2016, the Board's view is that shareholders might wish to defer any decision in respect of the Offer in the meantime and await further information from the Company to take advantage of the possibility that the position with respect to the Company's leases becomes more certain. In this respect, the extension of the Closing Date of Mercantile's offer until 12 June 2016 provides shareholders with a more useful period to reflect on the offer.

Over the next six weeks there are strong prospects that the position with respect to the Petone lease and the Pantry lease will be clarified, and this will possibly also be the case for the Thorndon Quay lease.

Clarity on the Company's residual liability under these leases will provide shareholders with a much greater degree of certainty as to the likely level of cash available for distribution to shareholders in a liquidation, and therefore a more certain context in which to assess the merits of Mercantile's.

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Other comments

As we stated last week, in considering Mercantile's offer, it is important that shareholders understand how the Board calculated its range of values.

In particular, the Low Scenario of $2.99 referred to in the Target Company Statement was calculated on the basis of a notional winding up of the Company, using the assumption that no deal would be done in respect of the Petone Lease at any stage in the next seven years.

In other words the Board took the worst case view of the Company being obliged to continue to pay rent and outgoings for the Petone Lease for the remaining term of seven years to 30 April 2023.

The Board is optimistic that it can secure a transaction which will substantially mitigate the Company's exposure under the Petone Lease. This would likely materially raise the level of the low range estimate provided by the directors.

The Board is also optimistic that the Pantry and Thorndon Quay leases will be successfully exited on terms which would also lift the low end scenario.

We also remind shareholders that under the transaction with David Jones Pty Limited the Company is required to change its name prior to David Jones completing the store refurbishment and opening the premises for trading. We have started the process of consultation with David Jones as to the possible names and timing for the required change. We will keep you informed in order that any change of name does not cause confusion.

A response to some comments made in Mercantile's letter of 26 April 2016

As Mercantile has suggested in its letter to you dated 26 April 2016, the ability of the Company to secure a satisfactory exit from the Petone lease is very relevant to your decision.

If the original transaction with respect to Petone had proceeded (independently of successful resolutions of the Pantry lease and the Thorndon Quay lease with all other assumptions as per paragraph 21.2 of the Target Company Statement unchanged), then the low range of the directors' assessment of value available to shareholders in a liquidation would have increased to $3.49.

If a similar transaction is concluded and the Pantry transaction is declared unconditional, with all other assumptions as per paragraph 21.2 of the Target Company Statement unchanged, then that low range climbs to $3.58.

Mercantile also states in its letter that:

> Liquidation is more than a year away and, if it becomes controversial, costs could skyrocket above the $100,000 provided

Contrary to that statement, the Board's current plans are to be in a position to commence a liquidation well within a year, and to position the Company for an early and substantial distribution of surplus cash. The Board is also unaware of any matter which would make a liquidation controversial. Shareholders are referred to the statement appearing at paragraph 11.3 of Schedule A on page 23 of the Mercantile Offer that:

> 'Mercantile intends to support the continuation of the winding up process, alongside the efficient investment and utilisation of K&S' cash assets. Ultimately, Mercantile may seek a return of capital to shareholders, if an efficient and appropriate structure for such a return can be developed'

We will provide shareholders with further up-dates as and when circumstances change in respect of any of the Company’s leases, and we will also communicate with shareholders in early June in advance of the Mercantile Offer closing in order that shareholders have an opportunity at that time to assess the position further.

To remind shareholders we attach an up-dated set of tables following the revised Mercantile Offer for your information and assistance.

SUMMARISED TABLES

Board’s Original High Scenario	**Board’s Original Low Scenario**	**Mercantile’s Revised Offer**
$3.49 49 cents higher than the revised Mercantile Offer	$2.99 1 cent below the revised Mercantile Offer	$3.00

Board’s High Scenario – with Pantry lease deal	**Board’s Low Scenario – with Pantry lease deal**	**Mercantile’s Revised Offer**
$3.58 58 cents higher than the revised Mercantile Offer	$3.08 8 cents higher than the revised Mercantile Offer	$3.00

Independent Adviser’s High Scenario	**Independent Adviser’s Low Scenario**	**Independent Adviser’s Midpoint**	**Mercantile’s Revised Offer**
$3.44 44 cents higher than the revised Mercantile Offer	$3.26 26 cents higher than the revised Mercantile Offer	$3.35 35 cents higher than the revised Mercantile Offer	$3.00

Falcon Clouston
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ENDS

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