1 June 2016

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Dear Shareholder

## Kirkcaldie & Stains Limited (‘Company’) – update to shareholders from the Board in respect of Mercantile offer

## DO NOT SELL

We are writing to you confirming our advice **not to sell** your shares to Mercantile NZ Limited (‘Mercantile’)

You will be aware that Mercantile made a takeover offer dated 15 March 2016 for all of the issued capital of the Company (‘Offer’). The final date for acceptance of the Offer is 12 June 2016 (although in limited circumstances the Offer could be extended).

The Offer was originally priced at $2.75 per share but was subsequently increased to $3.00 per share.

In our Target Company Statement sent to you on 1 April 2016 (‘Target Company Statement’) the Board recommended that you do not sell your shares. We repeated that recommendation in our announcements dated 27 April 2016 when Mercantile increased its Offer to $3.00 per share and again on 20 May 2016 when we announced the Petone lease deal.

In our NZX announcement of 20 May 2016 we advised shareholders that as a consequence of the recent transactions we have concluded for our remaining leases, we would write to shareholders with advice of the Board’s latest estimates to assist the shareholders to make a decision in respect of the takeover offer from Mercantile prior to its closing.

**These transactions have allowed us to revise upwards both our high and low end estimates of the likely cash available for distribution to shareholders in a winding up of the Company to respectively $3.60 (high) and $3.50 (low).**

In light of these revised numbers we continue to recommend that you do not sell your shares to Mercantile for $3.00.

### Recent transactions announced by the Company

**Petone lease:** On 20 May 2016 we advised NZX and shareholders that we had concluded an unconditional deal for the surrender of the lease at Petone.

That transaction settled yesterday (31 May 2016). The Company paid a total of $450,000 to exit a 7 year lease commitment which would otherwise have totalled approximately $1,400,000. The Company has no residual exposure under this lease.

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**Thorndon Quay lease:** On 20 May 2016 we also announced a deal to sub-lease the Thorndon Quay premises for the remaining one year of its term. That transaction results in a modest net benefit of approximately $80,000. Technically we have a residual exposure to this lease as it is a sub-lease and we rely on the sub-lessee paying us the agreed rental. We have no reason to doubt this will occur.

**Pantry lease:** The conditional deal announced in early April 2016 to surrender the Pantry lease was due to confirm yesterday (31 May 2016). We have granted an extension until 8 June 2016, largely due to various parties being overseas. At this stage we have no reason to believe this deal will not proceed. There may be a small cost to the Company associated with attending to some minor remedial works in the premises.

**Other:** We are not aware of any other material exposure for the Company which is not reflected in our calculations below. In particular we have not been notified by David Jones of any matter arising under our agreement disposing of the main store lease on Lambton Quay. We have never thought there was a material likelihood of any matter arising under our agreement with David Jones, but as time passes we become increasingly confident of this position.

### Revised Estimates of Cash

Conclusion of the deals for our remaining leases allows us to make a better informed estimate of the likely cash available for distribution to shareholders in a winding up of the Company and allow you to compare this against the Mercantile Offer. The current views of the Board are summarised in the table below.

## SUMMARISED TABLES

| Board's Revised High Scenario with all lease deals completed and liquidation costs at the board's estimate | Board's Revised Low Scenario with all lease deals completed but a contingency for higher than expected liquidation costs | Mercantile's Revised Offer |
|---|---|---|
| $3.60<br>60 cents higher than the revised Mercantile Offer | $3.50<br>50 cents above 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<br>44 cents higher than the revised Mercantile Offer | $3.26<br>26 cents higher than the revised Mercantile Offer | $3.35<br>35 cents higher than the revised Mercantile Offer | $3.00 |

The Board is confident of the Company being able to distribute to shareholders between $3.50 and $3.60 per share in a winding up during the course of 2017. We would look to do so as quickly as possible and have a clear strategy for doing so.

This is considered a materially better return for shareholders than the $3.00 offered by Mercantile. While there will be a delay in our ability to make a distribution, our cash reserves are held on interest bearing deposit, and we believe the difference between the Mercantile Offer and the amount we believe could be distributed to shareholders in a winding up more than offsets for most shareholders the time value of money.

Based on these figures, the directors confirm their recommendation not to accept the current offer from Mercantile of $3.00 per share. The Offer should be allowed to lapse. If a further offer is made, prospective parties will have a better understanding of the cash position of the Company and the levels at which any offer will need to be pitched if it is to attract a positive recommendation from the Board.

Yours faithfully

**Falcon Clouston**

**Chairman**