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TRADING AS K&D WAREHOUSE

SHAREHOLDERS' QUESTIONS & ANSWERS
ANNUAL GENERAL MEETING HELD 23 OCTOBER 2019

1. How did profit compare with budget?

At our AGM last year, we expected earnings for 2019 to fall between $150,000 and $300,000. Despite the ongoing challenge of dwindling sales, we are pleased to report underlying operating profit inclusive of interest income of $149,000.

2. Following the inevitable closure of the Hobart store, how much capital per share is expected to be returned to shareholders?

As stated by the chair in his address, after all store closure costs, the Directors expect to return a further $8.00 per share to shareholders.

3. How will capital be efficiently returned to shareholders?

The Directors have relied on professional advice from BDO to determine the best option to return capital to shareholders. Ultimately any tax impact to shareholders will manifest at the individual level and more specifically how their shares are held. To this end, BDO recommended a two-phase approach to efficiently return capital to shareholders.

Phase one was completed on the 29th May 2019 with payment of a fully franked dividend of $5.03 per share to shareholders. The timing of this distribution utilised all the available franking credits and was carefully planned, given the announcement by the Federal Opposition Party that if elected, cash refunds of franking credits to individuals and superannuation funds would be denied, starting from the 1st July this year.

Phase two, which is yet to be implemented, involves closing down the company by way of a Members Voluntary Liquidation. A member's voluntary liquidation is the most tax effective way to close down a solvent company with non-taxable capital gains. K&D generated significant capital gains on the sale of 103 Melville Street and 159 Harrington Street as well as the sale of 90 Melville Street in FY2018.

From a tax perspective, only a registered liquidator can return capital and retain the nature of that capital as a pre-CGT Capital Gain. In effect that means using a liquidator means shareholders will receive any payment as a return of capital and not as an unfranked dividend.

All shareholders should obtain their own advice as to the Capital Gains Tax impact of this return of capital on their own circumstances however it is likely that all shareholders who acquired their shares before 20th September 1985 will receive the payment as a tax-free pre-CGT return of capital. For those shareholders where shares were acquired post CGT it is likely they will have a Capital Gains Tax event that they need to consider.

In any event we would encourage all shareholders to obtain their own advice as to the impact on their own unique circumstances."

The voluntary liquidation process is relatively straight-forward and initiated by the Directors. A general meeting of shareholders is called to consider resolutions that the company be wound up, that all surplus cash be distributed and that a Liquidator be appointed. Shareholders also approve the amount of the liquidator's remuneration.

Upon distribution of the cash, the liquidation is finalised and the company is ultimately deregistered by ASIC three months after the Liquidator has completed the process.

Shareholders should understand that once a liquidator is appointed to K&D, the directors pass control of the company to the liquidator to secure tax clearance in order to distribute surplus capital. To this end, it is intended that management be tasked to close-down the business and sell all remaining company assets to maximise returns, arrange payments for creditors, wrap-up any outstanding contracts or legal disputes, as well as the final GST bill. Management to complete all relevant legal paperwork and final tax accounts prior to handover to the liquidator.

4. Why not carry on as an investment Company?

As announced by the Chair, we do not consider we have the appropriate scale to successfully morph into an investment company. The Directors consider that shareholders are better placed to invest their own money pursuant to their individual appetite for risk and return.

5. When can shareholders expect cash to be returned?

Currently we have a lease in place with UTAS which does not expire until 6th May 2021. Shareholders should further understand that the University has the option to cancel the lease at 6 months' notice. The Directors acknowledge that uncertainty remains over the future of the business and the timing of any capital return will ultimately depend on when the Hobart store ceases to trade. In the event that we trade to the end of the lease a capital return is likely at the end of 2021.

6. What are the Hobart closure costs forecast to be and are these costs reflected in the current net assets?

It is currently estimated that we will record a loss of $2.5m to successfully close the Hobart store. This includes all trading losses to clear inventory, and staff termination costs of approximately $1m. The expected loss on closure is not reflected in our current net assets of $24.5m.

7. What is the total capital returned since 2014?

Since February 2014, shareholders have received $8.24 per share in dividends and as previously mentioned can expect a further $8.00 per share after closure. In dollar terms, that equates to a cash return of $43.58m or $16.24 per share.

That concludes the questions raised by shareholders before today's meeting. I'll now hand back to the Chair for the first item of business.