



Kathmandu®

live the dream™

ANNUAL REPORT 2012





contents

Chairman's Report	2
Highlights For The Year	4
Chief Executive's Report	6
Board	12
Management	13
Directors' Report	15
Corporate Governance	24
Auditor's Independence Declaration	27
Financial Statements	29
Statutory Information	74
Share Registry	80

NOTICE OF ANNUAL GENERAL MEETING

11.00am Friday
16 November 2012
Sofitel Hotel,
61-101 Phillip Street,
Sydney
Australia

chairman's report



James Strong
Chairman

I am pleased to report on another successful year for Kathmandu Holdings Limited. Kathmandu was unable to match last year's record earnings result, but the achievement of both a solid increase in same store sales and a growth in second half year profits was a good result for the Company in what are particularly difficult economic times. A number of important projects were also delivered that will support future growth.

RETAIL CONDITIONS

The retail sector today, particularly in Australia, is re-aligning to an economic environment where consumers will likely spend less in real terms on discretionary purchases for several years ahead. This coincides with the acceleration of multichannel retailing and in particular, access to international brands via online selling, which is changing consumer buying patterns quickly and significantly across most discretionary retail categories.

As a fully vertical brand with total control over how we distribute our products we are well positioned to benefit from this situation. It still requires us to grow our market share and efficiently manage our costs to achieve profit growth. Kathmandu's strategy to obtain market share through increased and sustained investment in its brand, product and retail channels is unchanged. Through this investment we will maintain our leadership in the outdoor travel and adventure category, and deliver future profitable growth for our shareholders.

FINANCIAL RESULTS

The key financial highlights for the year ended 31 July 2012 were:

- ▶ Growth in sales by 13.4% to \$347.1 million
- ▶ Gross profit margin of 63.2%
- ▶ Decrease in earnings before interest and tax of 10.9% from NZ\$64 million to NZ\$57 million

There was satisfactory same store sales growth in both Australia (6.5%) and New Zealand (9.2%). Gross profit margin was in line with that achieved in FY2010 and the Company's long term targets, and whilst operating costs increased at a higher rate than sales, this was primarily as a result of non-recurring first half expenditure and expenses

associated with investment in infrastructure. Store numbers increased by 13, slightly below our target for the year. Overall EBIT margin reduced from 20.9% to 16.4% of sales.

GROWTH STRATEGY

Kathmandu continues to focus on the key growth strategies outlined at the time of our IPO in 2009, specifically:

- ▶ Continue new store rollout in Australia and New Zealand;
- ▶ Improve existing store network;
- ▶ Enhance product offering;
- ▶ Grow our Summit Club; and
- ▶ Develop and grow online and digital channel capabilities.

Maximising the value of the Kathmandu brand is supported by all of these strategies, and their successful execution as the channels to market grow will differentiate us from the retailers who don't control their own brand. New store rollout opportunities, particularly in Australia, remain our most significant and immediate growth opportunity. The new store rollout programme, the improvement of existing stores through refurbishment and relocation, and for both strategies the optimisation of store format and footprint will underpin our on-going market penetration. Similarly, most of our future growth in Summit Club will be driven by membership number increases in Australia.

The online channel and the associated development of ever improving direct to customer communication and marketing opportunities through electronic and social media will bring about a fundamental change in retailing and a clear opportunity for our brand. The introduction of our new online platform is a significant step in the development of

our capability to sell and service customers globally and growing our online business in the UK is a first step in this strategy. We intend to invest further to support the international growth opportunity for Kathmandu that this, and other related channels will provide us.

Kathmandu's product range growth in the past two years has supported sales growth over that time. Investment in new and innovative product will always be a focus, but our strategy in the near term will be to align our ranging to our store network and the variations that we have in the regions we sell to and the formats of those stores. At the same time we expect inventory levels (units and \$) will grow in line with overall sales growth, as compared to the lift in levels in FY2012 and FY2013 that were primarily range growth related.

CAPITAL INVESTMENT

The uplifted three year capital expenditure programme that was initiated last year has involved substantial investment in enlarged and improved distribution facilities, the establishment of a new office in Melbourne for our Australian domiciled support team, and completion of the targeted portion of the rollout of the new brand identity to our stores. The bulk of planned physical infrastructure investment that is not directly related to our store network is now complete, but we will be investing greater amounts in store refurbishments and relocations going forward, as well as new store rollouts. Our investment in improved information systems continues, with our prime focus now being on enhancing the customer experience in store and online and ensuring we have the foundation to be able to deliver to the global market.

DIVIDEND

The Directors are again recommending a final dividend of 7 cents per share, with the 3 cents interim dividend making a total payout for the year of 10 cents per share. The final dividend will be fully imputed for New Zealand shareholders, and fully franked for Australian shareholders.

This dividend represents a payout ratio of 57% and the Board continues to expect the payout ratio will remain in

the 50% to 60% range during the period in which capital expenditure also runs at a similar ratio.

PEOPLE

The Board thanks Kathmandu's Chief Executive Officer, Peter Halkett and his team for the result achieved by the Company in a challenging year. It is pleasing to be writing this report with a positive outlook for our team domiciled in Christchurch after the challenging last two years, and the opening of our New Zealand distribution centre in August was a highlight in the recovery now underway in our home city. We continue to grow the depth and competency of our team in all the countries that Kathmandu operates in, and we welcomed a number of them as shareholders for the first time this year under our long term incentive plan. Our future growth is being supported by a diverse and talented team of people.

OUTLOOK

The economic prospects both globally and in Australasia have to be viewed with real caution. Our approach to the UK exemplifies the care that your Board is taking in future expansion, but there is no change to your Board's view that the Kathmandu brand has genuine potential to be a significant global presence in the outdoor travel and adventure market. We are very clear that in the short term our key strategy remains to invest to grow the business and build the Kathmandu brand in the Australasian market. It is essential that we both grow profitably and maintain our strategic competitive advantage, and we will thus ensure our investment in growth opportunities continues to focus primarily on this market where we know we can deliver further profit growth. We expect this investment, in conjunction with effective management of operating expenses, will result in an improved performance next year and further develop the wider capabilities the Company requires in order to pursue new growth opportunities for Kathmandu.

James Strong

James Strong
Chairman

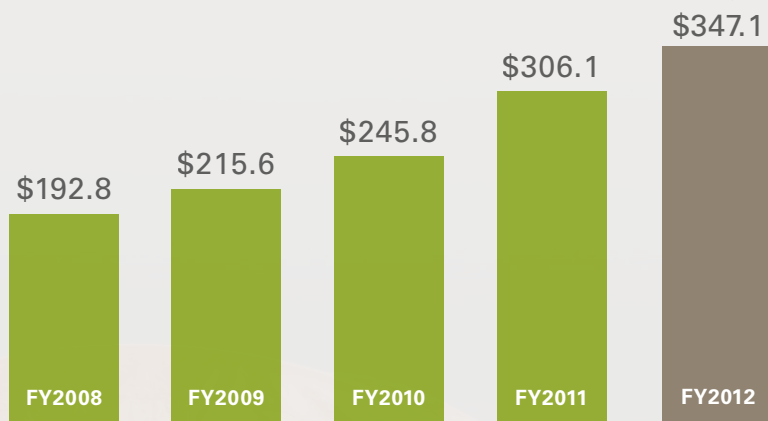


highlights for the year

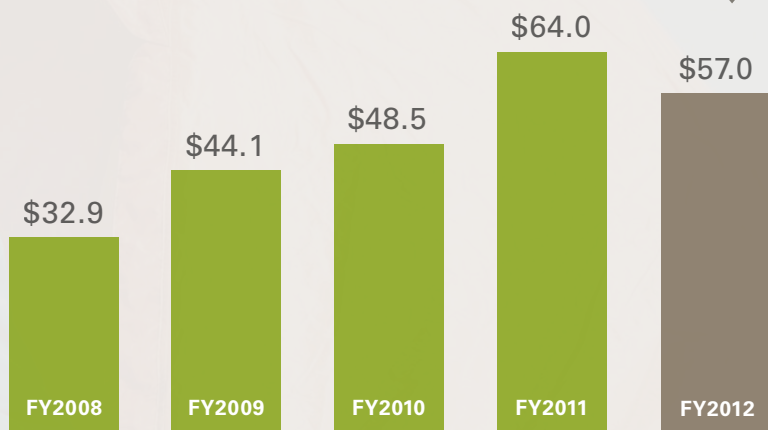
- ▶ Sales up 13.4%, 7% same store sales increase
- ▶ Store count increased to 124
- ▶ New brand identity rolled out
- ▶ Summit Club membership lifted by over 30%
- ▶ New online platform launched



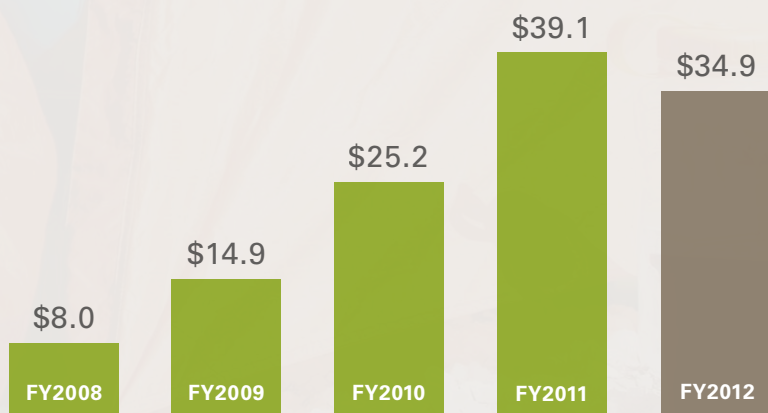
SALES (NZ\$m)



EBIT (NZ\$m)*



NPAT (NZ\$m)*



*FY2008 - FY2009 as presented in the Prospectus dated 23 October 2009, and FY2010 excluding the impact of IPO listings costs, and \$0.6m of net exchange losses on foreign currency borrowings.

chief executive's report



Peter Halkett
Managing Director and Chief Executive Officer

KEY HIGHLIGHTS

- ▶ Sales were up 13.4% to \$347.1m.
- ▶ Same store sales growth of 7% at constant exchange rates.
- ▶ New loyalty incentive for Summit Club grew sales and membership lifted by over 30%.
- ▶ Net profit after tax was \$34.9m; earnings per share 17.4c.
- ▶ Total store count increased by 13 to 124.
- ▶ Over 70% of stores now have new Kathmandu brand identity.
- ▶ New distribution centre in New Zealand opened, and Australian distribution centre has been enlarged.
- ▶ New ERP and warehouse management systems operational.
- ▶ Global online platform live in September 2012.

RESULT OVERVIEW

In the 2012 financial year there was an uplift in the level of on-going investment made in the business, which will support future growth for Kathmandu. This has occurred at a time when the retail environment is, and looks likely to remain difficult and it reflects our focus on positioning Kathmandu to grow our market share in the medium and long-term. Although the increase in sales in FY2012 of \$41 million was not matched by an improvement in profit, this was primarily due to costs associated with the growth focussed strategic investments that we made. In particular, we introduced loyalty incentives for Summit Club members who are regular buyers of Kathmandu product, and this long-term initiative enhanced sales but reduced our gross margins.

Operating expenses, whilst well controlled, were also impacted by unbudgeted and non-recurring costs associated with the implementation of new warehouse management systems and the re-organisation of our UK business.

In FY2012, we opened a further 10 permanent new stores, and overall we are trading in 124 locations at 31 July (including four short term leases), compared to 111 stores at the same date last year. This growth of 13 additional stores was short of our annual target of 15 and, as a result, the new store profit contribution in FY2012 was below both our expectations and the FY2011 performance.

However, it was much more significant for our future growth expectations that in this year we successfully:

- ▶ opened new format flagship stores in Willis Street (Wellington), Newmarket (Auckland), Camberwell (Melbourne) and Chatswood (Sydney); and
- ▶ finalised new small format layouts for high profile destinations such as Chapel Street and The Rocks, and a number of future prime mall locations opening in FY2013 and beyond.

The year-on-year reduction of just over 10% in Net Profit after Tax was disappointing, but it was pleasing that as a result of sales performance and tight management of expenses in the second half of the year, operating costs as a percentage of sales were down and second half profits of just under \$29m were up on the same period last year.

The overall financial performance, the success of new Kathmandu stores and the successful implementation of our new brand identity continue to reinforce that the Company's strategies are still appropriate and Kathmandu is well positioned to deliver profit growth in future years.

BUSINESS OVERVIEW

The Kathmandu Brand and Customer

We believe the strength of our brand is vital to the success of the business. Our popularity and brand recognition amongst customers is strong in New Zealand and Australia. The effectiveness of our focus on Summit Club membership growth has been a critical contributing factor to our continually improving brand positioning. We remain confident that by 2015, in tandem with our store rollout programme, we will have one million active Summit Club members across New Zealand and Australia.

The rollout of the new Kathmandu brand identity in stores and across the full product range has continued throughout the year. All products that are new to the market now carry our new brand identity, and we have re-branded over 70% of the store portfolio. Most of the remaining stores will be re-branded in tandem with either a lease renewal or programmed store refurbishment.

All of the initiatives we are undertaking will support our objective to increase Australian brand awareness to the level achieved in New Zealand, and as a result substantially improve our market penetration and sales per capita in

the country that still provides our most significant growth opportunity in the short and medium term. We will continue to grow our customer database and enhance the relationship we have with those customers. Our customers are a key asset to Kathmandu in the world of multichannel retailing.

Store Network

The focus on building our brand positioning and customer relationships is linked to the requirement for our store network strategy to adjust to the significant changes that are occurring in retail property as we decide on our best options for new and replacement stores. The key drivers of change are the weaker economic environment and the accelerated growth in online sales. The choices made today on store footprint, location and layout have never been more important.

Ten permanent new stores were opened in FY2012, and total store numbers increased by 13 stores year-on-year. This number was less than we had targeted, but it reflects our caution on site choices as we assessed the environment and our options in store formats in a number of local markets. Permanent store numbers totalled 120 as at 31 July: Australia 72, New Zealand 42 and UK 6. Stores currently open total 124.

The permanent new stores opened during the year were:

Australia: Warnambool, Chatswood*, Tamworth, Shellharbour, The Rocks (Sydney) and Moorabbin DFO (Melbourne).

New Zealand: Coastlands (Wellington), The Palms (Christchurch), Willis St* (Wellington) and Masterton.

*Both these stores are relocations, and the previous store has been converted to an outlet site that will likely become a permanent store.

The relocation of Newmarket and Camberwell stores to new enlarged sites meant the old sites for these stores are being traded temporarily as outlet stores until lease expiry in 2013. Our other temporary stores are the central Christchurch store in the post-earthquake Re-start retail precinct and Moonee Ponds (Melbourne).

As a result of the combination of the timing of our permanent new store openings in FY2012 and the lesser number opened (10 versus 14 in FY2011) there was a reduction in the earnings (at an EBITDA level) from new stores in FY2012 compared to FY2011.

In FY2013, we have a substantial number of our annual target of 15 new stores already locked in. Ten new store lease agreements have been negotiated and we expect



Camberwell, Victoria

to have nine of these stores trading before the end of 2012. These will include our flagship site in Pitt Street Mall, Sydney. During that same period, we will also complete four major store refurbishments or relocations, including our new flagship site in Hay Street Perth. Given this development programme, we are confident that by comparison to FY2012, the rollout of the new stores will contribute incremental earnings in FY2013.

We are committed to continuing re-investment in our store portfolio, where justified on the basis of both return on investment and the continuing improvement of our brand positioning in key markets. In FY2012, we enlarged our stores in Newcastle and Hobart and refurbished our Victoria Street store in Auckland. All of these stores are in prime Kathmandu markets and locations, and there will be a number of similar projects undertaken each year, generally in conjunction with lease renewals. In the first quarter of FY2013, we refurbished our Highpoint and Knox City stores in Melbourne, and relocated our Nelson store to larger and more central premises.

Store formats will continue to be evaluated and potentially modified in response to the wider retail and economic trends, but also in response to local opportunities. In particular we are confident from our experience in the past two years that we have a number of new small format store opportunities in Australia which we will now pursue within our overall network plan.

Product Range and Inventory

Effective and relevant expansion of our product range has been a core growth strategy since the Company listed in 2009. During this period, we have increased our total SKU count by approximately 30%. This range expansion occurred through expanded product categories with new styles, additional colours and sizes in existing styles, and new fabrications or technologies offered. The successful

execution of this strategy is directly relevant to the same store sales growth achieved in FY2011 and FY2012.

Total inventories, \$73.3m at 31 July 2012 increased by 35% on the previous year. This increase was in line with our targets, apart from the impact of opening fewer new stores than planned. Also the adjusted summer season delivery schedule meant levels of goods in transit increased at 31 July by 88% (c. \$6m) on the same time last year. On a per store basis, there was an 11% increase in inventory after adjusting for these one-off variations. We anticipate that in the future, our investment in inventory will generally increase in line with the rate of increase in sales and store numbers. Our primary focus is now on the management of our inventory range, investing in highest growth product groups and range planning to match the variation in our store formats and geographical locations, particularly in Australia.

UK Business

Our UK store portfolio is under review, but we remain committed to maintaining a small retail network to support the brand in that market. In FY2012, we closed our UK regional office and warehouse, and integrated management of the UK business back into the applicable functional responsibilities of the Australasian based Kathmandu Executive team. Costs associated with this re-organisation had a one-off impact on earnings of c. \$1m. Warehousing and distribution are now being undertaken by a third party provider. We envisage future sales growth in the UK will be derived primarily from the online channel. We intend to support the brand and our long-term emphasis on web based selling with retail stores merchandised and fitted out to best present the new brand identity, and located primarily in London. Where required we will realign our retail portfolio accordingly.

Infrastructure

We completed several major infrastructure projects during FY2012. Both the New Zealand and Australian distribution centres have been enlarged and will meet our projected capacity requirements in the medium term. The New Zealand distribution centre in Christchurch was a design build project for Kathmandu, and became operational at the start of FY2013. The lease of our previous site has been exited. The Melbourne distribution centre had its floor area increased by one-third following the end of a sublease arrangement, and the full site will be re-laid prior to this year's Christmas sale. These projects will substantially enhance distribution efficiency going forward. Our Melbourne support office was relocated at the beginning of 2012. No other major physical projects relating to our distribution centres or support offices are envisaged for at least the next two years.

Systems and Online

We will continuously invest in improved systems to support business growth. In August 2011, our upgraded

ERP and new warehouse management systems went live. This change over was not without operational problems, however these systems are now meeting expected performance standards and are critical to the efficient servicing of our ever increasing retail network.

Our next major area for systems development is software for product forecasting and planning, and a Point of Sale / CRM solution with global capability. Vendor selection for these projects is complete, and we plan to implement new systems in these areas by the end of FY2013. Our spend on new systems will be elevated for several years as we continue to build a robust platform capable of supporting the Australasian business, future development of multichannel retail options locally, and potentially globally.

The primary focus in systems development throughout the balance of FY2012 has been the new online platform, which is now live. This platform will underpin our future strategy to expand online selling into other markets. We previously maintained three separate sites for each of the countries we trade in, and had no capability to sell in other countries. Our effectiveness in growing UK sales via the new site will be our first focus and a good trial market relative to future expansion options.

MARKET OVERVIEW AND EMERGING TRENDS

The general consumer in all our current markets is now, compared to pre-GFC, a more cautious spender who is likely to be deleveraging where he or she has a choice between consciously paying off debt before engaging in the luxuries of life. Our strategy must continue to adapt as we grow to deal with this new normal and its associated emerging trends. These trends are most obvious in the changing face of retail stores and the growth of multichannel retailing with direct buying from global online businesses.

The outdoor category remains an attractive sector, both locally and globally, as evidenced by the continuing growth of new entrants and new stores selling outdoor and travel goods. We are careful to manage and develop our business in a planned manner as we modify our product mix and range and adjust our store strategies with regard to size, product offer and location. We believe Kathmandu remains well placed in this market, and absolute control of our brand is a fundamental competitive advantage.

FINANCIAL PERFORMANCE

Group sales \$347.1m increased by 13.4% over the previous year. We consider the increase in same store sales (by 5.7% overall, 7.0% at a constant exchange rate) to be a good outcome, given market conditions. Country by country change in same store sales was as follows:

- ▶ Australia 6.5%
- ▶ New Zealand 9.2%
- ▶ UK (7.7%)

In the three years since Kathmandu Holdings Ltd was listed, we have achieved an overall average per annum same store sales increase of more than 7% per annum in both Australia and New Zealand.

The increase in total gross profit for FY2012 was \$18.9m, an increase of 9.4% compared to a 29.2% uplift in FY2011. The sales increase was more than offset by a reduction in gross margin by 230bps, to 63.2% overall. This is the same rate of gross margin as we earned in FY2010, and sits comfortably within our long term target range of 62% to 64%. Gross margins were down by 300bps in New Zealand and 190bps in Australia. As previously noted, the key reason for the reduction of gross margins was the introduction of the new loyalty incentive to enhance the value of Summit Club membership. We will continue to reward our best and most loyal customers with this, and other similar benefits in the future.

The other drivers of change in gross margin over the year were generally less significant. In particular, improvement in hedging rates we received on USD purchasing in FY2012 generally enabled us to manage input cost increases without lifting retail price points.

Expenses, excluding depreciation, amortisation and financing costs, increased by \$23.8m (18.4%). This was an increase as a percentage of sales from 42.2% to 44.1%.

Most of this increase was in:

- ▶ property rent, which increased by \$7.7m and by 100bps as a percentage of sales; and
- ▶ warehousing and distribution costs, which increased by over \$3.3m (excluding rent and rates costs) and by 60bps as a percentage of sales.

The uplift in property rent arose primarily from:

- ▶ opening new prime flagship sites during the year, coupled with a cross-over of occupancy costs from retention of current sites on either a temporary basis or as a permanent conversion to outlet stores;
- ▶ warehousing, some of which was temporary in nature as we dealt with capacity constraints in both networks; and
- ▶ new Melbourne head office costs.

In future years, we will continue to see growth in rental costs primarily related to store rollout. Most incremental occupancy costs arising from infrastructure improvement are now in place, apart from the new New Zealand distribution centre, operational from August 2012. As a result, from FY2013 and beyond, we expect overhead rent and rates costs to flatten and then reduce as a percentage of sales, whilst store rental costs will likely increase slightly year-on-year as our weighting of stores into the more expensive Australian market continues.

We estimate that up to \$2m of the costs of warehousing and distribution incurred in FY2012 will not be repeated in FY2013, because these costs were incurred in response to the difficulties we encountered in the first half of the year as we introduced new warehouse management systems. These areas of the business are running reliably and more efficiently than was the case a year ago.

Operating expenses, after adjusting for one-off costs and asset write-offs, were similar as a percentage of sales in the second half of FY2012 compared to FY2011. In this period total expenses (excluding depreciation, amortisation and financing costs) increased by \$7.8m, up 11.1% and overall operating leverage was achieved. The mix of our operating costs between fixed and variable and between first and second half periods, in tandem with our sales being weighted to our second half does impact on our earnings profile and rate of growth between the two periods. Overall as our earnings are derived primarily in the second half of each year, the benefits from the future trend we expect for operating expenses to remain relatively constant as a percentage of sales will mainly impact earnings in that second half. This is the scenario we anticipate in FY2013, when a large number of new stores are planned for opening in the second quarter of the year.

The uplift in our level of capital expenditure in FY2012 resulted in an increase in depreciation and amortisation expense of \$2.1m, 28.4%. We expect a similar rate of increase will continue for several years ahead, as we plan to maintain levels of new capital expenditure each year at \$20m or more in the next two to three years. Partly offsetting this will be reduced costs of financing arising from the terms negotiated in our new bank facility, which is in place to the end of 2014. These cost savings were not significant in FY2012. As a result, the rate of reduction in both Earnings before Interest and Tax (down 10.9%) and Net Profit after Tax (down 10.7%) were similar.

Our strategy of significant capital investment is expected to deliver:

- ▶ the rollout of most of the balance of our optimum store network, particularly in Australia within the next three years;
- ▶ progress the optimisation of the existing store portfolio; and
- ▶ support our growth with adequate and efficient physical infrastructure and top tier systems.

SUSTAINABILITY

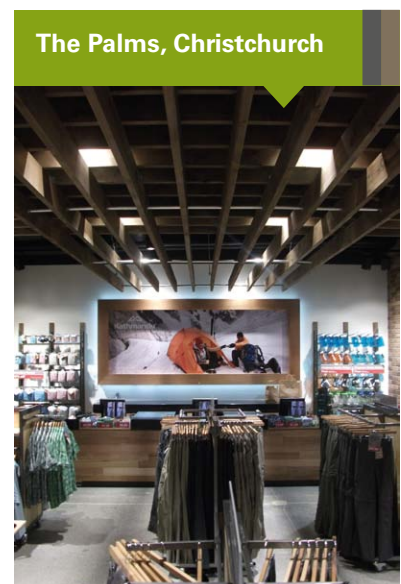
In 2011, Kathmandu launched the Sustain the Dream Plan 2011-2013. This plan outlines our sustainability objectives, model and action plan as we seek to integrate sustainability into the way we conduct our business.

In developing the plan, we incorporated the views of a range of team members from different functions to ensure a holistic and integrated approach to sustainability, to align our approach with our core purpose and values, and to reflect the importance of this area to our customers and team members.

The Sustain the Dream Plan is divided into five impact areas:

- ▶ minimise our environmental footprint;
- ▶ protect human rights;
- ▶ add economic value;
- ▶ strengthen communities; and
- ▶ develop our team.

In parallel with this year’s Annual Report, Kathmandu will release its first public sustainability report that highlights the progress of the plan. The report was developed in line with the Global Reporting Initiative guidelines to ensure a quality and transparent report.



OUR TEAM

Employee numbers as at 31 July 2012 reduced from 1733 last year to 1722. The reason for this change was a decrease in casual employees and an increase in full or part time permanent staff members from 50% to approximately 62% of the total workforce. Our annual employee engagement survey again delivered pleasing results for our employees' support of our brand and their positive view of Kathmandu as an employer. Retention within our retail management teams remains a specific objective, and it continues to be challenging, particularly in the Australian market. However, we are making pleasing progress, and additionally, the depth and competence of our wider leadership team continues to improve as our business grows.

We hope that the worst impacts from the Christchurch earthquakes are behind us. We continue to be very appreciative of the tremendous on-going support and commitment from our sales, distribution and office staff located in our home city.

As a result of the impact of the Christchurch earthquakes, and in the interest of growing the brand in the Australian market, we have continued to grow our Melbourne based team, focussing on those areas of the business where Australian domiciled roles will best support our growth in stores, marketing and direct-to-customer sales activity in the future.

OUTLOOK

In the three years that Kathmandu has been an ASX and NZX listed company, we have achieved solid same store sales and profit growth, and continued to roll out new and profitable stores in Australia and New Zealand. Although the economic environment is even more uncertain today than it was when we listed, we continue to have confidence that there will be profitable growth for Kathmandu in both markets in the years ahead. In Australia we have a substantial store rollout programme to complete, which will underpin achieving market penetration targets closer to those of New Zealand. Our expanded and ever improving product range and the continuing growth in Summit Club membership will strengthen our customer loyalty, and grow sales in both countries.

Investment in the Kathmandu brand and increasing the scale of our business remains critical to delivering our objectives. Each year we will continue to target 15 new stores. We also plan at least 6 relocations or refurbishments of existing stores as we enhance our brand positioning, and take up opportunities to optimise earnings growth. In the year ahead we will open flagship stores in central Sydney and Perth. Locations such as these along with other flagship stores already opened will help define and lift our brand profile in the medium term.

Our substantial uplift in product investment over the past two years as we filled obvious gaps and took up sensible opportunities for range extension led to an increase in SKU count of approximately 30% over that period. In the future we will focus on alignment of our range to our retail stores' footprint and location. Our objective is to increase return from each SKU in our range through investment in product growth categories and assortment range planning that will increase revenue and reduce cost to service ratios.

After we complete re-organising the now enlarged Australian distribution centre later this year we anticipate a period of reduced capital investment in physical infrastructure relative to our spend in the past two years. However this will be offset by our commitment to continuing investment in our stores, both new and existing, and our systems - including online. This investment is to ensure we efficiently support our target Australasian store network, and that in the medium and longer term we have capability to grow profitable global sales. Specifically, the launch of our new online platform will support wider sales activity in new markets, and planned investment to come in a new POS and CRM platform will also be critical to wider international expansion.

The medium and long term growth opportunities for Kathmandu are numerous, but our immediate objective is to increase earnings in FY2013 above the profit earned this year despite the continuing uncertainty caused by the wider economic environment. Given the level of investment being made in our growth strategies we must be confident that Kathmandu will deliver improved performance in FY2013. Our team will be working very hard to maximise the return on the investment being made, not just in the year ahead, but also in the longer term as we continue to grow the Kathmandu brand.



Peter Halkett
Managing Director and
Chief Executive Officer

board



JAMES STRONG
AO CHAIRMAN

Mr Strong is currently Chairman of Woolworths Limited, the Australia Council for the Arts and the Organising Committee for the ICC Cricket World Cup 2015. He is a Director of Qantas Airways, and a member of the Australian Grand Prix Corporation, Nomura Australia Advisory Board and Australian Institute of Company Directors.

Previous Board roles include Chairman of Insurance Australia Group, Rip Curl Group and Corrs Chambers Westgarth. Mr Strong was CEO of Australian Airlines from 1986-1989 and Managing Director and CEO of Qantas Airways from 1993-2001.



PETER HALKETT
MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER

Mr Halkett joined Kathmandu in 2006 and has directed the growth strategy for the business throughout the period of current ownership.

Mr Halkett has had a management career with extensive retail experience including Chief Executive Officer roles in New Zealand and the United Kingdom. The companies he has led include two that were publicly listed, in particular Pacific Retail Group.



MARK TODD
FINANCE DIRECTOR AND
CHIEF FINANCIAL OFFICER

Mr Todd joined Kathmandu in 1998, following previous financial management experience in both the apparel and retail sectors.

Mr Todd has been Kathmandu's senior financial executive throughout his 14 years with the Group, a Director of various Group companies and manager of the New Zealand business from 2004-2006.

Mr Todd is the Company Secretary.



JOHN HARVEY
NON-EXECUTIVE DIRECTOR

Mr Harvey is a professional Director with a background in accounting and professional services, including 23 years as a partner of PricewaterhouseCoopers where he also held a number of leadership and governance roles. Mr Harvey has extensive experience in financial reporting, governance, information systems and processes, business evaluation, acquisition, merger and takeover reviews.

Mr Harvey is currently a non-Executive Director of APN News & Media, DNZ Property Fund, Heartland Building Society Port Otago, New Zealand Opera and Balance Agri-Nutrients.



JOHN HOLLAND
NON-EXECUTIVE DIRECTOR

Mr Holland is a partner in the national New Zealand law firm Chapman Tripp and specialises in general corporate and commercial law. Mr Holland's securities law experience includes acting on initial public offerings, advising on employee share schemes and in the private equity area.

Mr Holland is a member of the Financial Markets Authority Capital Markets Disclosure Consideration Panel, having previously been a member of the Securities Commission of New Zealand and is an accredited director of the New Zealand Institute of Directors.



SANDRA MCPHEE
NON-EXECUTIVE DIRECTOR

Ms McPhee is a professional Director with an executive career background in sales and marketing including 10 years with Qantas Airways. Ms McPhee also served as CEO of the Ansett/Traveland Group.

Ms McPhee is currently a non-Executive Director of Fairfax Media, AGL Energy, Westfield Retail Trust and Vice President of the Art Gallery of NSW. She is also a member of the JP Morgan Advisory Council, MMC Advisory Board and St Vincents and Mater Health Sydney Community Advisory Council.

management

PETER HALKETT
MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER

Refer to Page 12.



GRANT TAYLOR
CHIEF INFORMATION OFFICER

Joined Kathmandu in August 2010 with 15 years experience in senior IT roles, including CIO at Otago and Southland District Health Boards and Group IT Manager for PGG Wrightson.



MICHELLE ADAMS
GM, PRODUCT

Joined Kathmandu in 2009 following extensive product and brand management experience with Pacific Brands and Canterbury.

MARK TODD
FINANCE DIRECTOR AND
CHIEF FINANCIAL OFFICER

Refer to Page 12.



TAMALIN MORTON
GM, MARKETING

Joined Kathmandu in 2007, with extensive experience in marketing management and brand strategy gained through senior marketing roles with Coles Group and Bass plc (UK).



CALEB NICOLSON
GM, SUPPLY CHAIN

Joined Kathmandu in 2007, after eight years with The Warehouse, where he had responsibility for delivering change across the supply chain and the merchandise function.



PAUL STERN
GM, BUSINESS DEVELOPMENT
& SUSTAINABILITY

Joined Kathmandu in January 2010 with over 18 years experience in senior Retail and Marketing roles, including at Kmart, A.S. Watson (Hong Kong), and Cadbury Schweppes.



MATTHEW WATTS
GM, RETAIL (AUSTRALIA)

Joined Kathmandu in 2011, with over 10 years multi site management experience in zone and national roles with Coles and Coles Express.



BRANDON BEVERIDGE
GM, RETAIL (NEW ZEALAND &
UNITED KINGDOM)

Joined Kathmandu in 2007, with an extensive retail management background in multi site, proprietorship and national roles. Prior to Kathmandu, he was 15 years with Pacific Retail Group.



directors' report

Your Directors present their Report and the Financial Statements for the year ended 31 July 2012.

DIRECTORS

The following persons were Directors of Kathmandu Holdings Limited during the financial year.

James Strong

Was re-appointed Chairman, non-Executive Director, Member of the Audit and Risk Committee, Member of the Remuneration and Nominee Committee on 24 November 2010 and continues in these offices at the date of this report.

Peter Halkett

Was appointed as Managing Director and Chief Executive Officer on 9 October 2009 and continues in these offices at the date of this report.

Mark Todd

Was re-appointed as an Executive Director on 18 November 2011 and appointed as Finance Director, Chief Financial Officer and Company Secretary on 9 October 2009 and continues in these offices at the date of this report.

John Harvey

Was appointed as a non-Executive Director, Chair of the Audit and Risk Committee, Member of the Remuneration and Nominee Committee on 16 October 2009 and continues in these offices at the date of this report.

John Holland

Was re-appointed as a non-Executive Director, Member of the Audit and Risk Committee, Member of the Remuneration and Nominee Committee on 24 November 2010 and continues in these offices at the date of this report.

Sandra McPhee

Was re-appointed as a non-Executive Director, Member of the Audit and Risk Committee, Chair of the Remuneration and Nominee Committee on 18 November 2011 and continues in these offices at the date of this report.

Details of the experience and expertise of the Directors and the Company Secretary are outlined on page 12 of this annual report.

RETIREMENT OF DIRECTORS

In accordance with the Company's constitution, James Strong and John Harvey will retire as Directors at the annual general meeting and being eligible, offer themselves for re-election.

MEETING OF DIRECTORS

The number of meetings of the Board of Directors and Committees held during the year ended 31 July 2012 and the numbers of meetings attended by each Director were:

Director	Director Meetings		Audit and Risk Committee Meetings		Remuneration And Nominee Committee Meetings	
	A	B	A	B	A	B
James Strong	8	8	8	8	8	8
Peter Halkett	8	8	XX	XX	XX	XX
Mark Todd	8	8	XX	XX	XX	XX
John Harvey	8	8	8	8	8	8
John Holland	8	8	8	8	8	8
Sandra McPhee	8	8	8	8	8	8

A – Number of meetings attended

B – Number of meetings held during the time the Director held office during the year

XX - Not a member of relevant Committee

REVIEW OF OPERATIONS

The profit of the consolidated entity for the financial year after providing for income tax amounted to \$34,852,000 (2011: \$39,066,000).

A detailed review of operations is provided on pages 2 to 11 of this annual report.

SIGNIFICANT CHANGES OF AFFAIRS

There has been no material change in the state of affairs of the Company or the Group.

PRINCIPAL ACTIVITIES

The Group's principal activity in the course of the financial year was the design, marketing and retailing of clothing and equipment for travel and adventure. It operates in New Zealand, Australia and the United Kingdom.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matters or circumstances have arisen since the end of the financial year which significantly affect or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years are contained on pages 2 to 11 of this annual report.

ENVIRONMENTAL REGULATION

The consolidated entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory of Australia, or of New Zealand.

DIVIDENDS

Since the end of the financial year the Directors have declared the payment of a final ordinary dividend of NZ 7.0 cents per share. Dividends will carry full New Zealand imputation credits and full Australian franking credits. The dividend will be paid on 22 November 2012.

The Company does not currently have an active dividend re-investment plan.

INSURANCE OF OFFICERS

The Company has entered into deeds of indemnity, insurance and access with each Director which confirms each person's right of access to certain books and records of the Company for a period of seven years after the Director ceases to hold office. This seven year period can be extended where certain proceedings or investigations commence before the seven years expires. The deed also requires the Company to provide an indemnity for liability incurred as an officer of the Company, to the maximum extent permitted by law.

Indemnification: Pursuant to the Constitution, the Company is required to indemnify all Directors and employees, past and present against all liabilities allowed under law. The Company has entered into an agreement with each Director to indemnify those parties against all liabilities to another person that may arise from their position as Director or other officer of the Company or its controlled entities to the extent permitted by law. The deed stipulates that the Company will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

Insurance: Pursuant to the Constitution, the Company may arrange and maintain Directors' and officers' insurance during each Director's period of office and for a period of seven years after a Director ceases to hold office. This seven year period can be extended where certain proceedings or investigations commence before the seven years expires.

REMUNERATION REPORT

The remuneration report is set out in the following sections:

A – PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

B – DETAILS OF REMUNERATION

C – SERVICE AGREEMENTS

D – DETAILS OF SHARE-BASED COMPENSATION

E – ADDITIONAL INFORMATION

The information provided in this remuneration report has not been audited as Kathmandu Holdings Limited is a foreign company in terms of the Corporations Act 2001 (Australia). However the report is provided in the same form as is generally applied by Australian companies listed on the ASX, and the audited remuneration disclosures contained in note 9 of the financial statements generally comply with those required under the Corporations Act 2001 (Australia).

A – PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The objective of the Company's Remuneration and Nominee Committee ("the Committee") is to create a framework whereby Directors and Executives are remunerated fairly and within generally accepted market and comparable entity norms, on a basis that appropriately rewards for the creation of shareholder value. The composition, role and responsibility of the Committee is outlined in the Corporate Governance Statement on page 25 of this annual report. The general principles adopted by the Committee in the setting of remuneration are:

- ▶ Remuneration whether measured at base or total level, should be market competitive, and generally account for key relevant internal and external factors such as employee level of responsibility and place of domicile, Company commercial circumstances, and market practice;
- ▶ Those employees with the clear ability to influence the achievement of the Company's strategic objectives and business plans ("key management and senior management personnel") should be rewarded by way of performance based rewards structured to reflect success or otherwise against those objectives and plans;
- ▶ The alignment and mix of remuneration should not be based primarily upon cash incentives earned from Company short term profit performance. The remuneration framework recognises the varying Executive roles, remunerates these accordingly and has an incentive structure that has a reduced and appropriate proportion of total remuneration that is cash based;
- ▶ The opportunity to participate in equity based rewards should be a component of the reward structure for key management personnel, both to align their reward with the creation of shareholder value, and to encourage their ongoing participation in and retention by the Company;
- ▶ Key management personnel who are Executives (those personnel who report directly to the Chief Executive Officer and who are not Board members) should have a substantial portion (as a target no less than one-third) of their total remuneration aligned with reward for creating shareholder value. This should generally be achieved through the application of appropriate and measureable

performance hurdles to be met as criteria for receiving incentive based remuneration by way of cash or equity;

- ▶ The Executive Directors (Chief Executive Officer and Chief Financial Officer) should, relative to other Executives have:
 - a greater proportion of total remuneration that is “at risk”, i.e. contingent upon the achievement of performance hurdles; and
 - a greater proportion of “at risk” remuneration weighted towards equity based rewards rather than cash, because of their role in establishing and delivering achievement of medium and long term Company strategic objectives and business plans, and increasing shareholder value over that period.
- ▶ The opportunity to participate in equity based rewards should be a component of remuneration for all senior management personnel.
- ▶ The audited consolidated financial results for the Group are the basis for measuring achievement against the financial performance target.
- ▶ Non-Executive Directors’ remuneration should enable the Company to attract and retain high quality Directors with the relevant experience. In order to maintain independence and impartiality, non-Executive Directors should not receive performance based remuneration.

REMUNERATION REVIEW 31 JULY 2012

The Board on the advice of the Committee has discretion to set all Executive remuneration. Recognising the Principles outlined above, the current prevailing market conditions and the reported performance of the Company, the Committee determined the following in relation to the 31 July 2012 review of remuneration:

- ▶ No increase in Board Directors fees;
- ▶ No increase in Executive Directors remuneration;
- ▶ No increase in Executive base salaries for FY2013 with the exception of one Executive member (who was subject to a pre-existing contractual arrangement);
- ▶ No short term incentives payable for FY2012; and
- ▶ No change to the structure and levels of available short term and long term incentives.

EXECUTIVE REWARDS

The Executive remuneration framework (currently applying to 9 Executives including the 2 Executive Directors) has four components:

1. **Base salary and benefits;**
2. **Short term cash incentives;**
3. **Short term equity incentives with performance conditions relating to continuing employment with the Company; and**
4. **Long term incentives via participation in the Company’s Option and Long Term Incentive plans.**

The combination of these comprises the Executives’ total remuneration. Other senior management personnel have a remuneration framework incorporating components 1. to 3.

The remuneration framework provides a market competitive reward for Executives that aligns appropriately with achievement of personal and strategic objectives, the results delivered, and the creation of value for shareholders. The framework also creates emphasis on cross-functional collaboration by requiring the payment of all short term incentive based rewards to be contingent firstly upon the achievement of the applicable overall Group financial performance targets.

Group Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) has been determined as the appropriate financial performance target to trigger payment of short term cash incentives. The criterion reflects the substantial capital investment expected to be approved and overseen by the Board over the medium term. The spend on this investment programme and the large number of projects in any year, means substantial variability in the depreciation and amortisation expense arising year by year is possible. This may or may not be within Executive control given the nature and mix of the Group’s capital assets, including information systems infrastructure, and leases.

The Company’s objective is to provide a remuneration framework whereby every incentive payment over and above an Executive’s fixed pay, whether in the form of cash or equity, is appropriate for the results delivered by the Company and the employee and is based on reward for performance. The Board, through the Committee undertakes its governance role in establishing Executive remuneration including, where required, use of external independent remuneration consultants and/or available market information, with reference to both total remuneration and its various components.

1. Base salary and benefits

Executive base salaries are structured as part of a total employment remuneration package which is delivered as a mix of cash and non-monetary benefits determined by negotiation with the Executive.

Executives are offered a competitive base salary that comprises the fixed component of pay and rewards. External independent remuneration consultants provide analysis and advice to assess whether base salary as well as total remuneration reflects the market positioning for a comparable role. Base salary for Executives is reviewed annually to provide competitiveness with the market but there are no guaranteed base salary increases in any Executive’s contracts, except as specifically stated in this report. An Executive’s remuneration is also reviewed on promotion.

Executive benefits include superannuation contributions made in accordance with the legislation specific to each country in which the employee is resident, medical insurance and for some Executives leasing and/or reimbursement of vehicle running costs. Key management and senior management personnel who relocate their place of work between countries may be assisted in the cost of such relocation.

2. Short term cash incentives

Executives are eligible to participate in an annual short term cash incentive which delivers rewards by way of cash bonuses, subject to the achievement of Group financial performance targets and individual KPI's.

The amount of any short term cash incentive paid in a year is dependent upon:

- ▶ the level of over performance achieved against the Group's financial performance target (EBITDA) for the year; and
- ▶ if financial performance targets have been met or exceeded, the achievement or otherwise of individual KPI's.

For the year ended 31 July 2012:

- ▶ The Group's financial performance targets were not met, and thus;
- ▶ No short term cash incentives were paid.

3. Short term equity incentives with performance conditions

The shareholder approved long term incentive plan enables the Board to offer equity incentives as part of short and long term remuneration. Both senior management personnel and Executives will participate in short term equity incentives.

Executives excluding the Executive Directors have 30% of the total value of their annual short term incentive remuneration equity based, with rewards delivered by way of nil cost performance rights. The entitlement to the short term equity incentive will be subject to the achievement of the same Group financial performance and individual KPI's as for the short term cash incentive.

Executive Directors have 40% of the total value of their annual short term incentive equity based and measured on the same basis.

If the Group financial performance targets and individual KPI's are achieved, vesting of the performance rights granted under this incentive will generally require the Executive staff member to remain employed by the Group for a period of two years after the end of the financial year in which Group financial performance that determines entitlement to the rights is measured.

Senior management personnel also have an annual short term incentive that is equity based, with rewards delivered by way of nil cost performance rights. The entitlement to the short term equity incentive is also subject to the achievement of Group's financial performance target for the year (EBITDA). If the target is achieved, vesting of the performance rights granted under this incentive will generally require the staff member to remain employed by the Group for a period of one year after the end of the financial year in which Group financial performance that determines entitlement to the rights is measured. The value of the annual short term equity incentive for senior management personnel is generally up to 10% of base salary.

For the year ended 31 July 2012:

- ▶ The Group's financial performance targets were not met, and thus;
- ▶ No short term equity incentives granted to Executives (including the Executive Directors) and senior management personnel in relation to this period will vest.

For the year ended 31 July 2011 the Group's financial performance targets were met and performance rights granted to senior management personnel for this period vested on 31 July 2012 for eligible employees. 165,940 rights converted to the same number of ordinary shares on 31 July 2012.

4. Long term incentive plans Options Plan 2009

The Company implemented the Employee Option Plan on 16 October 2009, and it was developed in the lead in to the Company's IPO in order to provide an incentive scheme for selected senior employees in conjunction with the public listing of the Company. An initial grant of options was made in conjunction with the IPO to seven Executives of the Company. Vesting of the options is subject to the Company achieving a compound annual growth in Total Shareholder Return (TSR) of 15% for the period applying to each tested period of performance measurement. TSR was determined as the criterion for performance measurement based on research against the market, and advice from external independent remuneration consultants with reference to the approach considered appropriate for a Company undertaking an IPO of shares.

Subject to achievement of this condition and Executives remaining in employment with the Company at the vesting date, the options granted to each Executive as detailed below vest progressively in 3 equal tranches on the test dates of 1 October 2010, 2011 and 2012. If the TSR performance condition has not been achieved on the applicable test date there will be re-testing of this condition on 1 October 2011, 2012 and 2013. All options have an expiry date five years from their date of grant.

The Board do not intend to grant any further options under the existing plan. The Board are of the view that the existing plan no longer represents an appropriate on-going long term incentive structure for the Company post the IPO.

Long-term incentive plan November 2010

Shareholders approved a new long term incentive plan at the Company's 2010 Annual General Meeting based on the granting of nil cost performance rights. Rights have been offered each year since the plan was approved. Vesting of the rights are dependent upon the Company achieving Earnings per Share (EPS) and /or relative TSR targets over a 2, 3 and 4 year performance period, with 50% of the value of rights allocated under each target.

EPS is measured on a compound annual growth basis and TSR is measured on a relative basis against similar sized Australian and New Zealand listed retail organisations. Performance measurement under either criterion is at the end of each applicable performance period with no ability to re-test. Fifty percent of the relevant portion of the award vests for achievement of targets and a further fifty percent vests for the achievement of aspirational targets. A sliding scale operates between target and aspirational performance levels.

This long-term incentive is intended to focus performance on achievement of key long-term performance metrics. The selected performance measures provide an appropriate balance between relative and absolute Company performance. The Committee considers this plan will best support and facilitate the growth in shareholder value over the long term.

Rights were offered in 2010 to all Executives. From 2011 onwards, the Committee has granted only Executive Directors with nil cost performance rights that will require achievement of EPS and relative TSR targets over the 2, 3 and 4 year periods. These grants are subject to shareholder approval. Other Executives and senior management personnel have been granted nil cost performance rights under this plan that are measured and will vest under the short term equity incentive framework.

NON-EXECUTIVE DIRECTORS' FEES

The current aggregate limit for non-Executive Directors' fees is \$A800,000 per annum with a base fee payable (including superannuation if applicable) to the Chairman of \$A206,000 and to a non-Executive Director currently of \$A103,000 per annum. Additionally A\$10,000 per annum is paid for sub-committee attendances. The Managing Director and Finance Director do not receive Directors' fees. The amounts approved for Directors' fees are expressed in \$A given the specific requirements for remuneration reporting applying to ASX listed companies, however all amounts reported in the tables within this

report are specified in \$NZ, being the reporting currency of the Company.

It remains the Board's intention that Directors' fees will be reviewed annually, with external independent remuneration consultants providing advice to ensure fees reflect market rates. There are no guaranteed annual increases in any Director's fees.

Non-Executive Directors do not participate in the Company short or long term incentive schemes.

The following fees apply per annum, including sub-committee attendance fees:

BASE FEES	AUD \$
Chairman	216,000
Other non-Executive Directors	113,000
Actual fees paid in year ended 31 July 2012 (converted to reporting currency)	NZD \$
Chairman	277,534
Other non-Executive Directors	145,182

B – DETAILS OF REMUNERATION

The following Executives along with the Directors were the key management personnel with the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Peter Halkett – Chief Executive Officer

Mark Todd – Chief Financial Officer

Tamalin Morton – General Manager, Marketing

Michelle Adams – General Manager, Product

Caleb Nicolson – General Manager, Supply Chain

Paul Stern – General Manager, Business Development and Sustainability

Grant Taylor – Chief Information Officer
(from 30 August 2010)

Matthew Watts – General Manager, Retail Australia
(from 1 March 2012)

Brandon Beveridge – General Manager, Retail
New Zealand (from 1 March 2012)

All of the above persons were employed by the Group and were key management personnel for the entire year ended 31 July 2012 and the year ended 31 July 2011, unless otherwise stated. Peter Halkett, Mark Todd, Michelle Adams, Caleb Nicolson, Grant Taylor and Brandon Beveridge are employees of Kathmandu Limited (New Zealand domiciled), and Tamalin Morton, Paul Stern and Matthew Watts, are employees of Kathmandu Pty Limited (Australian domiciled).

Details of the remuneration of the Directors and other key management personnel of the Group, for the current and prior financial years are set out in note 9 of the financial statements.

C - SERVICE AGREEMENTS

All Executives are on employment terms consistent with the remuneration framework outlined in this report. Each of the agreements has an open term, and the period of notice to be given by the employee is three months. The agreements provide for three months base salary inclusive of any applicable superannuation to be paid in the event of a redundancy.

D – DETAILS OF SHARE-BASED COMPENSATION Options Plan 2009

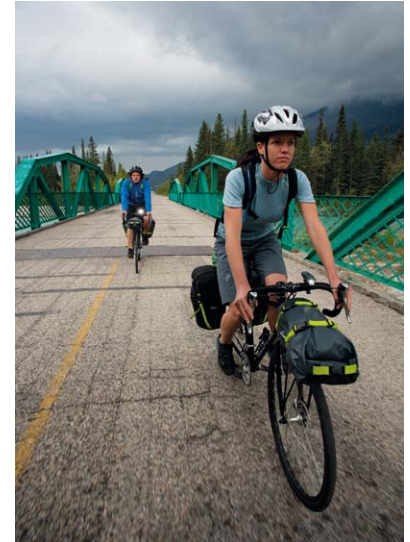
The Company Employee Option plan entitles the holder to acquire one share for each option granted by paying the prescribed exercise price to the Company once the option has vested in the holder and the relevant exercise conditions have been met.

As noted above, the Board do not intend to grant any further options under the existing plan. The number of options previously granted by the Company and thus provided as remuneration to Executive Directors and other key management personnel under this plan is set out below. The fair value of the options granted on 18 November 2009 is \$0.46 per option.

All options granted under this plan will vest on the exercise dates above provided the required performance hurdles are achieved and the employee remains employed with the Company at the vesting date. In the event an employee leaves the Company prior to the vesting date the options will lapse. Any options that vest under this plan must be exercised no later than 18 November 2014. The total payable per employee on the exercise of one or more options on a particular day is the price per share in the Company paid for by the purchasers of shares in the IPO, being \$A1.70 and \$NZ2.1333, regardless of the number exercised on that day.

Year Ended 31 July 2010	Options Grant Date	Options Granted During The Year	First Vesting Date	Last Vesting Date	Total Fair Value Of Options At Grant Date \$	Options Vested During The Year
Executive Directors						
Peter Halkett	18 Nov 2009	186,218	1 Oct 2010	1 Oct 2013	78,925	-
Peter Halkett	18 Nov 2009	186,218	1 Oct 2011	1 Oct 2013	88,912	-
Peter Halkett	18 Nov 2009	186,218	1 Oct 2012	1 Oct 2013	90,841	-
Mark Todd	18 Nov 2009	53,377	1 Oct 2010	1 Oct 2013	22,623	-
Mark Todd	18 Nov 2009	53,377	1 Oct 2011	1 Oct 2013	25,485	-
Mark Todd	18 Nov 2009	53,377	1 Oct 2012	1 Oct 2013	26,038	-
Other Key Management Personnel						
Michelle Adams	18 Nov 2009	26,755	1 Oct 2010	1 Oct 2013	11,340	-
Michelle Adams	18 Nov 2009	26,755	1 Oct 2011	1 Oct 2013	12,774	-
Michelle Adams	18 Nov 2009	26,756	1 Oct 2012	1 Oct 2013	13,052	-
Tamalin Morton	18 Nov 2009	36,932	1 Oct 2010	1 Oct 2013	15,653	-
Tamalin Morton	18 Nov 2009	36,932	1 Oct 2011	1 Oct 2013	17,634	-
Tamalin Morton	18 Nov 2009	36,933	1 Oct 2012	1 Oct 2013	18,017	-
Caleb Nicolson	18 Nov 2009	15,518	1 Oct 2010	1 Oct 2013	6,577	-
Caleb Nicolson	18 Nov 2009	15,518	1 Oct 2011	1 Oct 2013	7,409	-
Caleb Nicolson	18 Nov 2009	15,518	1 Oct 2012	1 Oct 2013	7,570	-
Total		956,402			442,850	-

1. Bryan Moore was General Manager, Information Services until his resignation on 10 September 2010, consequently 44,949 options granted to him under this plan have lapsed.
2. Matthew Spencer was General Manager, Retail until his resignation on 6 January 2012, consequently 118,624 options granted to him under this plan have now lapsed.



No options in the Company were granted or vested in the previous year. No grants have been made subsequent to year end.

Long term incentive plan November 2010

The Company Long term incentive plan entitles the Board to grant performance rights for no cash consideration, at intervals determined by the Board. Rights were offered in 2010 to all Executives and senior management personnel domiciled in Australia and New Zealand.

For Executives vesting of the rights will be dependent upon the Company achieving Earnings per Share (EPS) and / or relative TSR targets over a 2, 3 and 4 year performance

period, with 50% of the value of rights allocated under each target.

For senior management vesting of the rights was dependent firstly upon achievement of Company EPS targets for FY2011, and given those targets were achieved, the rights granted vested on 31 July 2012 for personnel that remained employed by the Company on that date.

For each Executive the number of rights granted and the applicable performance period over which EPS and relative TSR is measured is set out below, along with the fair value of the rights at the grant date.

2012	Grant Date	Rights Granted during the year	Date Exercisable	Expiry Date	Total fair value of Performance Rights at Grant Date \$	Performance Rights granted in prior periods vested during the year
Executive Directors						
Peter Halkett	30 Nov 2011	46,498	1 Dec 2013	1 Dec 2015	86,487	-
Peter Halkett	30 Nov 2011	46,497	1 Dec 2014	1 Dec 2015	84,160	-
Peter Halkett	30 Nov 2011	46,497	1 Dec 2015	1 Dec 2015	81,137	-
Mark Todd	30 Nov 2011	27,476	1 Dec 2013	1 Dec 2015	51,105	-
Mark Todd	30 Nov 2011	27,476	1 Dec 2014	1 Dec 2015	49,732	-
Mark Todd	30 Nov 2011	27,476	1 Dec 2015	1 Dec 2015	47,945	-
Other Key Management Personnel						
Michelle Adams	-	-	-	-	-	-
Tamalin Morton	-	-	-	-	-	-
Paul Stern	-	-	-	-	-	-
Caleb Nicolson	-	-	-	-	-	-
Grant Taylor	-	-	-	-	-	-
Matthew Watts	-	-	-	-	-	-
Brandon Beveridge	-	-	-	-	-	-
Total		221,920			400,566	-

2011	Grant Date	Rights Granted during the year	Date Exercisable	Expiry Date	Total fair value of Performance Rights at Grant Date \$	Performance Rights granted in prior periods vested during the year
Executive Directors						
Peter Halkett	29 Nov 2010	59,048	1 Dec 2012	1 Dec 2014	139,353	-
Peter Halkett	29 Nov 2010	59,048	1 Dec 2013	1 Dec 2014	132,858	-
Peter Halkett	29 Nov 2010	59,048	1 Dec 2014	1 Dec 2014	126,363	-
Mark Todd	29 Nov 2010	20,833	1 Dec 2012	1 Dec 2014	49,166	-
Mark Todd	29 Nov 2010	20,833	1 Dec 2013	1 Dec 2014	46,874	-
Mark Todd	29 Nov 2010	20,833	1 Dec 2014	1 Dec 2014	44,583	-
Other Key Management Personnel						
Michelle Adams	29 Nov 2010	6,131	1 Dec 2012	1 Dec 2014	14,469	-
Michelle Adams	29 Nov 2010	6,131	1 Dec 2013	1 Dec 2014	13,795	-
Michelle Adams	29 Nov 2010	6,131	1 Dec 2014	1 Dec 2014	13,120	-
Tamalin Morton	29 Nov 2010	8,759	1 Dec 2012	1 Dec 2014	20,671	-
Tamalin Morton	29 Nov 2010	8,759	1 Dec 2013	1 Dec 2014	19,708	-
Tamalin Morton	29 Nov 2010	8,759	1 Dec 2014	1 Dec 2014	18,744	-
Paul Stern	29 Nov 2010	8,759	1 Dec 2012	1 Dec 2014	20,671	-
Paul Stern	29 Nov 2010	8,759	1 Dec 2013	1 Dec 2014	19,708	-
Paul Stern	29 Nov 2010	8,759	1 Dec 2014	1 Dec 2014	18,744	-
Caleb Nicolson	29 Nov 2010	5,952	1 Dec 2012	1 Dec 2014	14,047	-
Caleb Nicolson	29 Nov 2010	5,952	1 Dec 2013	1 Dec 2014	13,392	-
Caleb Nicolson	29 Nov 2010	5,952	1 Dec 2014	1 Dec 2014	12,737	-
Grant Taylor	29 Nov 2010	5,357	1 Dec 2012	1 Dec 2014	12,643	-
Grant Taylor	29 Nov 2010	5,357	1 Dec 2013	1 Dec 2014	12,053	-
Grant Taylor	29 Nov 2010	5,357	1 Dec 2014	1 Dec 2014	11,464	-
Total		344,517			775,163	-

1. Matthew Spencer was General Manager, Retail until his resignation on 6 January 2012, consequently 29,775 rights granted to him under this plan have now lapsed.

Performance rights granted to each Executive will, subject to satisfaction of performance conditions, vest on the basis of one ordinary share for each performance right which vests, at the end of each performance period.

E – ADDITIONAL INFORMATION

Cash bonuses and performance

As noted above, for the current year no cash bonuses that were available to be paid to key management personnel based on achievement of financial performance targets and individual KPI's were paid as a result of the Company not meeting those performance targets.

Options and performance

Testing for the vesting of options granted under the Company Employee Option plan is 1 October in each year (for one-third of the options granted). From 1 October 2010 onwards in the event that the initial tranche of options do not vest on initial testing because the TSR performance target for the tested period has not been met, the options do not lapse. There is annual retesting against the 15% compound TSR growth target on 1 October each year through to 2013 for each tranche.

Company performance

All key management personnel's short term cash incentive is dependent upon the Company's overall financial performance for each financial year and their long term incentive is dependent upon both earnings per share growth and relative total shareholder returns over a range of performance periods.

With reference to the measurement of long term incentive performance the table below outlines the Company's earnings and share performance since its listing on 13 November 2009:

Year	NPAT	Growth	EPS cents per share	EPS Growth	Share price at start of year	Share price at end of year	Share price growth	Ordinary dividends paid or declared per share
FY2010	\$9.4m	NA	0.3	NA	\$2.13	\$2.05	(3.8%)	\$0.07
FY2011	\$39.1m	316.0%	19.5	65x	\$2.05	\$2.20	7.3%	\$0.10
FY2012	\$34.9m	(10.7%)	17.4	0.9x	\$2.20	\$1.59	(27.7%)	\$0.10

Share price quoted is the NZX listing price. The Company is listed on both the ASX and NZX and options will vest on both exchanges, dependent on where the employee is based.

Historical performance prior to the Company's listing is not considered meaningful with respect to the Company's performance and its impact on shareholder wealth.

Shares under options or performance rights

There are no unissued ordinary shares of the Company under any vested options or performance rights at the date of this report.

REMUNERATION OF AUDITORS

Details of remuneration of Auditors is set out in note 22 of the Financial Statements.

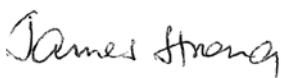
Non-Audit Services

PricewaterhouseCoopers were appointed auditors of Kathmandu Holdings Limited in 2009 and whilst their main role is to provide audit services to the Company, the Company does employ their specialist advice where appropriate. In each instance, the Board has considered the nature of the advice sought in the context of the audit relationship and in accordance with the advice received from the Audit and Risk Committee, does not consider these services compromised the auditor independence for the following reasons:

- ▶ All non-audit services have been reviewed by Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor
- ▶ None of the services undermined the general principles relating to auditor independence, including not reviewing or auditing the auditor's own work, not acting in a management or a decision making capacity for the Company, not acting as advocate for the Company or not jointly sharing economic risk or rewards.

A copy of the auditor's independence declaration is contained on page 27 of this annual report.

This report is made in accordance with a resolution of the Directors.



James Strong
Chairman



Peter Halkett
Managing Director

BOARD, MANAGEMENT AND CORPORATE GOVERNANCE

corporate governance

The Board and management of the Company are committed to ensuring that the Company adheres to best practice governance principles and maintains the highest ethical standards. The Board is responsible for the overall corporate governance of the Company, including adopting the appropriate policies and procedures and seeking to ensure Directors, management and employees fulfil their functions effectively and responsibly. The Company is listed on both the New Zealand and Australian stock exchanges. Corporate governance principles and guidelines have been introduced in both countries. These include the Australian Securities Exchange (ASX) Corporate Governance Council Corporate Governance Principles and Recommendations, the New Zealand Stock Exchange Listing Rules relating to corporate governance, the NZX Corporate Governance Best Practice Code, and the New Zealand Securities Commission's Corporate Governance Principles and Guidelines (collectively, the Principles). The Board considers that the Company's corporate governance practices and procedures substantially reflect these principles. The full content of the Company's Corporate Governance policies, practices and procedures can be found on the Company's website (www.kathmanduholdings.com).

The main policies and practices adopted by the Company are summarised below.

BOARD CHARTERS OF DIRECTORS AND ITS COMMITTEES

The Board has adopted a written charter to provide a framework for the effective operation of the Board. The charter addresses the following matters and responsibilities of the Board:

- ▶ enhancing Shareholder value;
- ▶ oversight of the Company, including its control and accountability systems;
- ▶ appointing and removing the Managing Director (or equivalent) and the Chief Financial Officer;
- ▶ ratifying the appointment, and where appropriate, the removal of the senior executives;
- ▶ input into and approval of corporate strategy and performance objectives;
- ▶ reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- ▶ monitoring senior management's performance and implementation strategy, and seeking to ensure appropriate resources are available;
- ▶ approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- ▶ approving budgets; and
- ▶ approving and monitoring financial and other reporting.

BOARD COMPOSITION

At present, there are six Directors on the Board. Four out of the six Directors are non-Executive Directors. Peter Halkett, (Managing Director and Chief Executive Officer), and Mark Todd (Finance Director and Chief Financial Officer) are the only Executive Directors on the Board. The Chairman of the Board is James Strong. The biography of each Board member, including each Director's skills, experience, expertise and the term of office held by each Director at the date of this Annual Report is set out in the "Board" section of this Annual Report.

INDEPENDENCE OF DIRECTORS

The factors that the Company will take into account when assessing the independence of its Directors are set out in its Charter, a copy of which is available on the Company's website (www.kathmanduholdings.com).

The Managing Director (Peter Halkett) and Finance Director (Mark Todd) are employed by the Company or another Group member in an executive capacity and are not considered to be independent Directors based on the criteria set out in the Board Charter. All remaining Directors satisfy the criteria and are considered independent Directors, namely James Strong, John Harvey, John Holland and Sandra McPhee.

BOARD COMMITTEES

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. The Board has established the Audit and Risk Committee and the Remuneration and Nomination Committee. Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of the Company, relevant legislative and other requirements and the skills and experience of individual Directors.

AUDIT AND RISK COMMITTEE

Under its charter, this committee must have at least three members, a majority of whom must be independent Directors and all of whom must be non-Executive Directors. Currently, all the non-Executive Directors are members of this committee. John Harvey is Chair of the committee. The primary role of this committee includes:

- ▶ overseeing the process of financial reporting, internal control, continuous disclosure, financial and non-financial risk management and compliance and external audit;

- ▶ monitoring Kathmandu's compliance with laws and regulations and Kathmandu's own codes of conduct and ethics;
- ▶ encouraging effective relationships with, and communication between, the Board, Management and Kathmandu's external auditor; and
- ▶ evaluating the adequacy of processes and controls established to identify and manage areas of potential risk and to seek to safeguard the Company's assets.

Under the charter it is the policy of the Company that its external auditing firm must be independent of the Company. The committee will review and assess the independence of the external auditor on an annual basis.

REMUNERATION AND NOMINATION COMMITTEE

Under its charter, this committee must have at least three members, a majority of whom must be independent Directors and all of whom must be non-Executive Directors. Currently, all the non-Executive Directors are members of this committee. Sandra McPhee is Chair of the committee. The main functions of the committee, are to assist the Board with a view to establishing a Board of effective composition, size, expertise and commitment to adequately discharge its responsibilities and duties, and assist the Board with a view to discharging its responsibilities to Shareholders and other stakeholders to seek to ensure that the Company:

- ▶ has coherent remuneration policies and practices which enable the Company to attract and retain Executives and Directors who will create value for Shareholders;
- ▶ fairly and responsibly remunerates Directors and Executives, having regard to the performance of the Company, the performance of the Executives and the general remuneration environment; and
- ▶ has effective policies and procedures to attract, motivate and retain appropriately skilled persons to meet the Company's needs.

RISK MANAGEMENT POLICY

The identification and proper management of the Company's risks are an important priority of the Board. The Company has a risk management policy appropriate for its business. This policy highlights the risks relevant to the Company's operations, and the Company's commitment to designing and implementing systems and methods appropriate to minimise and control its risk. The Audit and Risk Committee is responsible for monitoring risk management and establishing procedures which seek to provide assurance that major business risks are identified, consistently assessed and appropriately addressed.

CONTINUOUS DISCLOSURE POLICY

The Company is committed to observing its disclosure obligations under the Listing Rules. The Company has a

policy which establishes procedures which are aimed at ensuring that Directors and Management are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information.

SECURITIES TRADING POLICY

The Company has guidelines for dealing in securities which are intended to explain the prohibited type of conduct in relation to dealings in securities under the Corporations Act 2001 (Australia) and the Securities Markets Act 1988 (NZ) and to establish a best practice procedure in relation to Directors', management's and employees' dealings in Shares in the Company. Subject to the overriding restriction that persons may not deal in Shares while they are in possession of material price sensitive information, Directors and management will only be permitted to deal in Shares during certain 'window periods', following the release of the Company's full and half year financial results or the release of a disclosure document offering shares in the Company. Outside of these periods, Directors and management must receive clearance for any proposed dealing in Shares.

CODE OF CONDUCT

The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has a formal code of conduct, to be followed by all employees and officers. The key aspects of this code are to:

- ▶ act with honesty, integrity and fairness and in the best interest of the Company;
- ▶ act in accordance with all applicable laws, regulations, policies and procedures; and
- ▶ use Company resources and property properly.

DIVERSITY POLICY

Kathmandu aspires to appoint the best people to do the best job. In seeking to achieve this objective, the importance of employee diversity is recognised in our commitment to recruit, develop and promote employees on merit, at all levels across the Group, without any form of discrimination. We respect the unique differences that employees can bring to Kathmandu such as differences in age, gender, ethnicity, cultural background, sexual orientation, religious or political beliefs or activities. The benefits of diversity will continue to be tested and re-affirmed with reference to our team composition.

Kathmandu has established a Diversity Policy in accordance with ASX CGC Corporate Governance Principles and Recommendations. A copy of this policy can be obtained from the Company's website (www.kathmanduholdings.com).

We consider our current level of employee gender diversity to be efficacious in meeting our policy objective of maintaining appropriate female employee ratios across the Group. We will continue to be vigilant in the review

of measurable diversity objectives in accordance with Recommendation 3.3 of the ASX CGC Corporate Governance Principles and Recommendations, and modify or add to these if required. We will conduct and report a gender audit annually to measure progress from baseline data and identify and review any specific areas of gender inequality.

GENDER DIVERSITY

In accordance with ASX CGC Corporate Governance Principles and Recommendations, Recommendation 3.4; the proportion of females employed by Kathmandu as at 31 July 2012 was as follows:

- ▶ Board: 17% being 1 female of 6 Directors
- ▶ Executive Management: 22% being 2 females of 9 Executives
- ▶ Senior Management (Wider Leadership Team): 44% being 18 females of a total of 41 in the Wider Leadership Team
- ▶ Total Employees New Zealand: 61% being 412 females of 676 total employees
- ▶ Total Employees Australia: 51% being 505 females of 989 total employees
- ▶ Total Employees United Kingdom: 25% being 14 females of 57 total employees
- ▶ Total Kathmandu Group: 54% being 931 females of 1722 employees

Kathmandu considers our current employee gender diversity as a strength. We will continue to encourage

gender diversity to support strategies and initiatives that foster a diverse culture through employee turnover. Return to work and flexible working arrangements which facilitate gender diversity will be expanded to further encourage team retention.

A study of employee pay parity was conducted and audited as part of the Group annual salary review process, to consider whether any employee gender pay disparity existed. Based upon the results there is little evidence of any disparity between male and female employees. A review of gender pay parity will continue to be an on-going focus for the Group.

COMMUNICATIONS WITH SHAREHOLDERS

The Company is committed to keeping Shareholders informed of all major developments affecting the Company's state of affairs relevant to Shareholders in accordance with all applicable laws. Information is communicated to Shareholders through the lodgement of all relevant financial and other information with ASX and NZX and publishing information on the Company's website (www.kathmanduholdings.com). In particular, the Company's website will contain information about the Company, including media releases, key policies and the terms of reference of the Company's Board Committees.

All relevant announcements made to the market and any other relevant information will be posted on the Company's website as soon as they have been released to the ASX and NZX.





Auditor's Independence Declaration

As lead auditor for the audit of Kathmandu Holdings Limited for the year ended 31 July 2012, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Kathmandu Holdings Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Robert Harris', written in a cursive style.

Robert Harris
Partner
PricewaterhouseCoopers

20 September 2012



financial statements

FOR THE YEAR ENDED 31 JULY 2012

Directory	29
Directors' Approval of Financial Statements	30
Statements of Comprehensive Income	31
Statements of Changes in Equity	32
Balance Sheets	33
Statements of Cash Flows	34
Notes to the Financial Statements	35
Auditors' Report	72

CONTENTS OF NOTES TO FINANCIAL STATEMENTS

1	General information	35
2	Summary of significant accounting policies	35
3	Standards, interpretations and amendments to published standards	41
4	Income and expenses	43
5	Income tax expense	44
6	Reconciliation of net profits after taxation with cash inflow from operating activities	45
7	Cash and cash equivalents	46
8	Trade and other receivables	46
9	Related party disclosures	47
10	Derivative financial instruments	50
11	Inventories	50
12	Property, plant and equipment	51
13	Intangible assets	52
14	Investment in subsidiaries	53
15	Deferred taxation	54
16	Trade and other payables	55
17	Interest bearing liabilities	56
18	Contributed equity - ordinary shares	57
19	Employee share based remuneration	57
20	Reserves and retained earnings	61
21	Dividends	62
22	Remuneration of auditors	62
23	Contingent liabilities	62
24	Contingent assets	63
25	Commitments	63
26	Financial risk management	64
27	Segmental information	69
28	Earnings per Share	71
29	Earthquake disclosures	71
30	Events occurring after the balance date	71

directors' approval of financial statements

FOR THE YEAR ENDED 31 JULY 2012

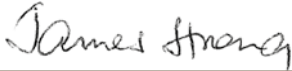
Authorisation for Issue

The Board of Directors authorised the issue of these Financial Statements on 20 September 2012.

Approval by Directors

The Directors are pleased to present the Financial Statements of Kathmandu Holdings Limited for the year ending 31 July 2012 on pages 31-71.

Director



Date: 20 September 2012

Director



Date: 20 September 2012

For and on behalf of the Board of Directors

statements of comprehensive income

FOR THE YEAR ENDED 31 JULY 2012

	Note	GROUP		PARENT	
		2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Sales		347,104	306,143	-	-
Cost of sales		(127,559)	(105,560)	-	-
Gross profit		219,545	200,583	-	-
Other income		48	-	20,013	20,341
Selling expenses	4	(113,774)	(94,812)	-	-
Administration and general expenses	4	(48,854)	(41,751)	(1,794)	(1,868)
		56,965	64,020	18,219	18,473
Finance income		144	236	-	49
Finance expenses		(5,983)	(7,039)	(92)	-
Finance costs - net	4	(5,839)	(6,803)	(92)	49
Profit before income tax		51,126	57,217	18,127	18,522
Income tax (expense)/benefit	5	(16,274)	(18,151)	154	(106)
Profit after income tax		34,852	39,066	18,281	18,416
Movement in cash flow hedge reserve	20	5,746	(5,055)	-	-
Movement in foreign currency translation reserve	20	3,739	1,409	-	-
Other comprehensive income for the year, net of tax		9,485	(3,646)	-	-
Total comprehensive income for the year attributable to shareholders		44,337	35,420	18,281	18,416
Basic earnings per share	28	17.4cps	19.5cps		
Diluted earnings per share	28	17.2cps	19.2cps		
Weighted average basic ordinary shares outstanding ('000)	28	200,000	200,000		
Weighted average diluted ordinary shares outstanding ('000)	28	203,121	203,254		

statements of changes in equity

FOR THE YEAR ENDED 31 JULY 2012

GROUP	Share Capital	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Share Based Payments Reserve	Retained Earnings	Total Equity
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Balance as at 31 July 2010	197,049	(4,000)	2,480	246	43,352	239,127
Total comprehensive income	-	(5,055)	1,409	-	39,066	35,420
Dividends paid	-	-	-	-	(20,000)	(20,000)
Movement in employee share option reserve	-	-	-	379	-	379
Balance as at 31 July 2011	197,049	(9,055)	3,889	625	62,418	254,926
Total comprehensive income	-	5,746	3,739	-	34,852	44,337
Dividends paid	-	-	-	-	(20,000)	(20,000)
Issue of share capital	249	-	-	-	-	249
Share Options / Performance Rights lapsed	-	-	-	-	8	8
Movement in employee share option reserve	-	-	-	114	-	114
Balance as at 31 July 2012	197,298	(3,309)	7,628	739	77,278	279,634

PARENT	Share Capital	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Share Based Payments Reserve	Retained Earnings	Total Equity
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Balance as at 31 July 2010	422,137	-	-	246	(12,359)	410,024
Total comprehensive income	-	-	-	-	18,416	18,416
Dividends paid	-	-	-	-	(20,000)	(20,000)
Movement in employee share option reserve	-	-	-	379	-	379
Balance as at 31 July 2010	422,137	-	-	625	(13,943)	408,819
Total comprehensive income	-	-	-	-	18,281	18,281
Dividends paid	-	-	-	-	(20,000)	(20,000)
Issue of share capital	249	-	-	-	-	249
Share Options / Performance Rights lapsed	-	-	-	-	8	8
Movement in employee share option reserve	-	-	-	114	-	114
Balance as at 31 July 2012	422,386	-	-	739	(15,654)	407,471

balance sheets

AS AT 31 JULY 2012

	Note	GROUP		PARENT	
		2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
ASSETS					
Current assets					
Cash and cash equivalents	7	1,811	3,574	26	5
Trade and other receivables	8	3,503	2,339	261	192
Related party receivable	9	-	-	82,885	84,216
Derivative financial instruments	10	-	2	-	-
Inventories	11	73,295	54,001	-	-
Current tax assets		-	-	3,113	3,214
Total current assets		78,609	59,916	86,285	87,627
Non-current assets					
Property, plant and equipment	12	41,911	32,822	-	-
Intangible assets	13	249,092	243,685	-	-
Investment in subsidiaries	14	-	-	321,234	321,234
Deferred tax	15	3,218	3,467	-	-
Total non-current assets		294,221	279,974	321,234	321,234
Total assets		372,830	339,890	407,519	408,861
LIABILITIES					
Current liabilities					
Trade and other payables	16	29,304	21,012	48	42
Derivative financial instruments	10	3,128	10,505	-	-
Current tax liabilities		6,276	6,666	-	-
Total current liabilities		38,708	38,183	48	42
Non-current liabilities					
Derivative financial instruments	10	751	301	-	-
Interest bearing liabilities	17	53,737	46,480	-	-
Total non-current liabilities		54,488	46,781	-	-
Total liabilities		93,196	84,964	48	42
Net assets		279,634	254,926	407,471	408,819
EQUITY					
Contributed equity - ordinary shares	18	197,298	197,049	422,386	422,137
Reserves	20	5,058	(4,541)	739	625
Retained earnings	20	77,278	62,418	(15,654)	(13,943)
Total equity		279,634	254,926	407,471	408,819

statements of cash flows

FOR THE YEAR ENDED 31 JULY 2012

	Note	GROUP		PARENT	
		2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Cash flows from operating activities					
Cash was provided from:					
Receipts from customers		345,974	306,618	-	-
Dividends received		-	-	20,000	20,000
Income tax received		-	-	257	-
Interest received		131	179	-	-
		346,105	306,797	20,257	20,000
Cash was applied to:					
Payments to suppliers and employees		291,626	246,063	1,567	1,477
Income tax paid		16,002	14,175	-	2,875
Interest paid		5,949	6,785	-	-
		313,577	267,023	1,567	4,352
Net cash inflow from operating activities	6	32,528	39,774	18,690	15,648
Cash flows from investing activities					
Cash was provided from:					
Proceeds from sale of property, plant and equipment		32	-	-	-
		32	-	-	-
Cash was applied to:					
Purchase of property, plant and equipment	12	17,868	11,188	-	-
Purchase of intangibles	13	3,985	676	-	-
		21,853	11,864	-	-
Net cash (outflow) from investing activities		(21,821)	(11,864)	-	-
Cash flows from financing activities					
Cash was provided from:					
Proceeds of loan advances		206,226	240,223	1,331	4,351
		206,226	240,223	1,331	4,351
Cash was applied to:					
Dividends paid		20,000	20,000	20,000	20,000
Repayment of loan advances		199,040	248,177	-	-
		219,040	268,177	20,000	20,000
Net cash inflow / (outflow) from financing activities		(12,814)	(27,954)	(18,669)	(15,649)
Net increase / (decrease) in cash held		(2,107)	(44)	21	(1)
Opening cash and cash equivalents		3,574	4,736	5	6
Effect of foreign exchange rates		344	(1,118)	-	-
Closing cash	7	1,811	3,574	26	5

notes to the financial statements

1 GENERAL INFORMATION

Kathmandu Holdings Limited (the Company) and its subsidiaries (together the Group) is a designer, marketer and retailer of clothing and equipment for travel and adventure. It operates in New Zealand, Australia and the United Kingdom.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 11 Mary Muller Drive, Heathcote, Christchurch.

These audited consolidated financial statements have been approved for issue by the Board of Directors on 20 September 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

The reporting currency used in the preparation of these consolidated financial statements is New Zealand dollars, rounded where necessary to the nearest thousand dollars.

(A) BASIS OF PREPARATION

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Entities reporting

The financial statements for the "Parent" are for Kathmandu Holdings Limited as a separate legal entity.

The consolidated financial statements for the "Group" are for the economic entity comprising Kathmandu Holdings Limited and its subsidiaries. The Group consists of:

Kathmandu Holdings Limited

Parent Company

Milford Group Holdings Limited

100% owned by Kathmandu Holdings Limited

Kathmandu Limited

100% owned by Milford Group Holdings Limited

Kathmandu Pty Limited

100% owned by Milford Group Holdings Limited

Kathmandu (U.K.) Limited

100% owned by Milford Group Holdings Limited

The Company and Group are designated as profit oriented entities for financial reporting purposes.

Statutory base

Kathmandu Holdings Limited is a company registered under the Companies Act 1993.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets as identified in specific accounting policies below.

Critical accounting estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill and brands

The group tests annually whether goodwill and brands have suffered any impairment; in accordance with the accounting policy stated in note 2 (q) (i) & (ii). The recoverable amounts of cash-generating units have been determined based on the fair value less cost to sell calculation. These calculations require the use of estimates (note 13).

(ii) Stock obsolescence

The Group assesses the likely residual value of inventory. A stock provision is recognised for stock which is selling for less than cost. Any increase in these provisions is taken as a reduction to inventory on the balance sheet and expensed into gross profit on the income statement.

(B) PRINCIPLES OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial

and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred over the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(C) SEGMENT REPORTING

An operating segment is a component of an entity that engages in business activities which earns revenue and incurs expenses and where the chief decision maker reviews the operating results on a regular basis and makes decisions on resource allocation. The Group is organised into three operating segments, depicting the three geographical regions the Group operates in.

(D) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the financial statements of each of the subsidiaries' operations are measured using the currency of the primary economic environment in which it operates ('functional currency'). The financial statements are presented in New Zealand dollars, which is the Company's functional currency and Group's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges. Translation differences on monetary financial assets and liabilities are reported as part of the fair value gain or loss.

(ii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(E) REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, excluding Goods and Services Tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods

Sales of goods are recognised when a Group entity has delivered a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of sale (excluding GST), including credit card fees payable for the transaction. Such fees are included in selling expenses.

(ii) Sales of services

Management fees are recognised in the accounting period in which the services are rendered.

(iii) Interest income

Interest income is recognised on a time-portion basis using the effective interest method.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

(F) CURRENT AND DEFERRED INCOME TAX

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have

been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(G) GOODS AND SERVICES TAX (GST)

The income statement and the cash flow statement have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(H) LEASES

The Group is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(I) IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life, including goodwill, are not subject to amortisation and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(J) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or

less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(K) TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

The collectability of trade receivables is reviewed on an on-going basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(L) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(M) INVESTMENTS AND OTHER FINANCIAL ASSETS

The Group classifies its investments in the following categories: loans and receivables, and financial assets at fair value through profit or loss. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at the initial recognition and re-evaluates this designation at every reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are presented in the income statement, except for foreign exchange movements on monetary assets, which are recognised in the income statement within 'finance costs – net'. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(N) DERIVATIVES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit and loss over the period of maturity.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting or hedge accounting has not been adopted. Changes in the fair value of these derivative instruments are recognised immediately in the income statement within 'finance costs – net'.

(O) FAIR VALUE ESTIMATION

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

The only financial instruments held by the Group that are measured at fair value are over the counter derivatives. These derivatives have all been determined to be within level 2 (for the purposes of NZ IFRS 7) of the fair value hierarchy as all significant inputs required to ascertain the fair value of these derivatives are observable.

(P) PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using diminishing value method so as to expense the cost of the assets over their useful lives. The rates are as follows:

Leasehold Improvements	10 – 50 %
Office, Plant and Equipment	10 – 48 %
Furniture and Fittings	10 – 48 %
Computer Equipment	20 – 60%
Motor Vehicles	15 – 30%

The assets' residual value and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Capital work in progress is not depreciated until available for use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(Q) INTANGIBLE ASSETS

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the assets and liabilities of the acquiree. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Brand

Acquired brands are carried at original cost based on independent valuation obtained at the date of acquisition. The brand represents the price paid to acquire the rights to use the Kathmandu brand. The brand is not amortised. Instead the brand is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

(iii) Software costs

Software costs have a finite useful life. Software costs are capitalised and written off over the useful economic life using diminishing value method and rates of 10-60%.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees.

(R) TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid by the 30th of the month following recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(S) PROVISIONS

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The Group has no provisions at year end.

(T) BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(U) SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(V) EMPLOYEE BENEFITS

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave, and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. The liability for employee entitlements is carried at the present value of the estimated future cash flows.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

(iii) Equity settled share option plan

The Employee Share Option Plan allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense in the Income Statement with a corresponding increase in the employee share based payments reserve. The fair value is measured at grant date and spread over the vesting periods. The fair value of the options granted is measured using the Monte Carlo simulation approach, taking into account the terms and conditions upon which the options are granted. When options are exercised the amount in the share option reserve relating to those options, together with the exercise price paid by the employee, is transferred to share capital. When any vested options lapse, upon employee termination or unexercised options reaching maturity, the amount in the share based payments reserve relating to those options is transferred to retained earnings.

(iv) Equity settled long term incentive plan

The Executive and Senior Management Long Term Incentive plan grants Group employees performance rights subject to performance hurdles being met. The fair value of rights granted is recognised as an employee expense in the Income Statement with a corresponding increase in the employee share based payments reserve. The fair value is measured at grant date and amortised over the vesting periods. The fair value of the rights granted is measured using the Kathmandu Holdings Limited share price as at the grant date less the present value of the dividends forecast to be paid prior to the each vesting date. When performance rights vest, the amount in the share based payments reserve relating to those rights are transferred to share capital. When any vested performance rights lapse upon employee termination, the amount in the share based payments reserve relating to those rights is transferred to retained earnings.

(W) DIVIDENDS

Dividend distribution to the Company shareholders is recognised as a liability in the Company's and Group's financial

statements in the period in which the dividends are approved by the Company's shareholders.

(X) CASH FLOW STATEMENT

The following are definitions of the terms used in the Cash Flow Statement:

- ▶ Cash comprises: cash at bank, cash on hand and overdraft balances;
- ▶ Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments can include securities not falling within the definition of cash;
- ▶ Financing activities are those activities which result in changes in the size and composition of the capital structure of the Company;
- ▶ Operating activities include all transactions and other events that are not investing or financing activities.

(Y) CHANGES IN ACCOUNTING POLICIES

There were no changes in the accounting policies during the period.

3 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS

The following new standards and amendments to standards were applied during the period;

NZ IAS 24: Related Parties Disclosures (effective for annual reporting periods beginning on or after 1 January 2011):

The amendment simplifies and clarifies the definition of a related party.

FRS 44: New Zealand Additional Disclosures and Harmonisation Amendments (effective 1 July 2011):

FRS 44 sets out New Zealand specific disclosures for entities that apply NZ IFRSs. These disclosures have been relocated from NZ IFRSs to clarify that these disclosures are additional to those required by IFRSs.

The Harmonisation Amendments amends various NZ IFRSs for the purpose of harmonising with the source IFRSs and Australian Accounting Standards. The significant amendments include:

- ▶ deletion of the requirement for an independent valuer to conduct the valuation of investment property and property, plant and equipment;
- ▶ inclusion of the option to account for investment property using either cost or fair value model;
- ▶ introduction of the option to use the indirect method of reporting cash flows that is not currently in NZ IAS 7.

In addition, various disclosure requirements have been deleted.

Adoption of the new rules has not affected any of the amounts recognised in the financial statements, but has simplified some of the Group's current disclosures.

Standards, interpretations and amendments to published standards that are not yet effective

NZ IFRS 9: Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2015):

This standard replaces the parts of NZ IAS 39 Financial Instruments: Recognition and Measurement that relates to the classification and measurement of financial instruments.

All financial assets are required to be classified into two measurement categories: at fair value and at amortised cost.

The determination is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

For financial liabilities, the standard retains most of the NZ IAS 39 requirements. An additional presentational requirement has been added for liabilities designated at fair value through profit and loss. Where the fair value option is taken, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income.

NZ IFRS 10 Consolidated Financial Statements (effective 1 January 2013), revised NZ IAS 27 Separate Financial Statements:

NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 Consolidated and Separate Financial Statements, and NZ IFRIC 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation.

However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

NZ IAS 27 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the group and parent entity will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the parent's investments in the separate parent entity financial statements.

NZ IFRS 13 Fair Value Measurement (effective 1 January 2013):

NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 July 2014.

4 INCOME AND EXPENSES

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Profit / (loss) before income tax includes the following specific (income) and expenses:				
Income				
Dividends received	-	-	(20,000)	(20,000)
Management fees	-	-	-	(341)
Expenses				
<u>Depreciation</u>				
- Leasehold improvements	4,986	3,902	-	-
- Office, plant and equipment	485	484	-	-
- Furniture and fittings	2,020	1,555	-	-
- Computer equipment	421	584	-	-
- Motor vehicles	20	28	-	-
Total depreciation	7,932	6,553	-	-
<u>Amortisation</u>				
- Software	1,599	862	-	-
Total amortisation	1,599	862	-	-
(Gain) / Loss on sale of property, plant and equipment	891	527	-	-
Rental and operating lease expenses	39,595	31,918	-	-
Directors' fees	714	728	714	728
Employee entitlements:				
- Wages, salaries and other short term benefits	61,795	52,286	-	-
- Employee share based remuneration	371	379	371	379
<u>Finance costs</u>				
Interest income	(131)	(179)	-	-
Interest expense	4,274	4,443	-	-
Other finance costs	1,587	2,256	-	-
Net exchange (gain) / loss on foreign currency borrowings	109	283	(92)	(49)
	5,839	6,803	(92)	(49)

Remuneration of auditors is detailed in note 22.

Amortisation expenditure is included in administration expenses in the income statement.

5 INCOME TAX EXPENSE

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Income statement				
Current income tax charge	17,053	17,237	(154)	(339)
Deferred income tax charge (refer note 15)	(779)	914	-	445
Income tax charge / (credit) reported in income statement	16,274	18,151	(154)	106
Reconciliation of effective tax charge				
Profit before income tax	51,126	57,217	18,127	18,522
Income tax calculated at 28% (2011: 30%)	14,315	17,165	5,075	5,557
Adjustments to taxation:				
Adjustments due to different rate in different jurisdictions	654	51	-	-
Non-taxable income	-	-	(5,600)	(6,000)
Expenses not deductible for tax purposes	946	967	31	189
Effect of change in corporate tax rate	-	13	-	(5)
Utilisation of tax losses by group companies	-	-	-	365
Tax expense transferred to foreign currency translation reserve	464	202	-	-
Adjustments in respect of prior years	(105)	(247)	340	-
Income tax charge / (credit) reported in income statement	16,274	18,151	(154)	106

Unrecognised tax losses

The group has estimated tax losses to carry forward from Kathmandu (U.K.) Limited of £7,290,184 (NZ\$14,350,756) (2011: £5,743,723 (NZ\$12,016,157)) which can be carried forward to be offset against future profits generated within the UK.

IMPUTATION CREDITS	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Imputation credits available for use in subsequent reporting periods	3,554	4,479	(1)	-

The above amounts represent the balance of the imputation account as at the end of July 2012, adjusted for:

- ▶ Imputation credits that will arise from the payment of the amount of the provision for income tax;
- ▶ Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- ▶ Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The balance of Australian franking credits able to be used by the Group as at 31 July 2012 is A\$3,369,445 (2011: A\$836,783).

6 RECONCILIATION OF NET PROFIT AFTER TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Profit after taxation	34,852	39,066	18,281	18,416
Movement in working capital:				
(Increase) / decrease in trade and other receivables	(1,130)	1,564	(69)	(11)
(Increase) / decrease in inventories	(18,473)	(16,585)	-	-
Increase / (decrease) in trade and other payables	7,887	4,121	6	(26)
Increase / (decrease) in tax liability	(558)	2,369	101	(3,213)
	(12,274)	(8,531)	38	(3,250)
Add non cash items:				
Depreciation	7,932	6,553	-	-
Amortisation of intangibles	1,599	862	-	-
Revaluation of derivative financial instruments	(1,131)	913	-	-
(Increase) / decrease in deferred taxation	288	5	-	445
Employee share based remuneration	371	379	371	379
Loss on sale of property, plant and equipment	891	527	-	-
	9,950	9,239	371	824
Items classified as financing activities:				
Intercompany financing	-	-	-	(342)
Cash inflow from operating activities	32,528	39,774	18,690	15,648

7 CASH AND CASH EQUIVALENTS

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Cash on hand	167	155	-	-
Cash at bank	1,455	3,419	26	5
Short term deposits	189	-	-	-
	1,811	3,574	26	5

The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

NZD	487	389	26	5
AUD	211	2,499	-	-
GBP	927	550	-	-
USD	177	135	-	-
EUR	9	1	-	-
	1,811	3,574	26	5

8 TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Trade receivables	206	92	-	-
Sundry debtors and prepayments	3,297	2,247	261	192
	3,503	2,339	261	192

Bad and doubtful trade receivables

The Group has recognised a loss of \$0 (2011: \$0) in respect of bad and doubtful trade receivables during the year ended 31 July 2012.

The carrying amount of the Group's trade and other receivables are denominated in the following currencies:

NZD	1,565	1,129	261	192
AUD	1,241	683	-	-
GBP	697	527	-	-
	3,503	2,339	261	192

9 RELATED PARTY DISCLOSURES

Parent and Ultimate Controlling Party

Kathmandu Holdings Limited is the immediate parent, ultimate parent and controlling party.

During the year, legal fees of \$163,683 (2011: \$75,730) were paid to Chapman Tripp for services provided (primarily related to property leases). John Holland is both a Director of Kathmandu Holdings Limited and a Partner of Chapman Tripp. As at 31 July 2012, there were outstanding legal fees of \$20,149 (2011: \$0).

During the year, operating lease costs of \$223,054 (2011: \$199,000) were paid to Chalmers Properties Limited, a subsidiary of Port Otago Limited. John Harvey is a Director of both of these companies.

All subsidiaries within the Group (note 14) are related parties. No amounts owed to related parties have been written off or forgiven during the year.

During the year the Company advanced and repaid loans to its subsidiaries by way of an internal current account. In presenting the financial statements of the Group, the effect of transactions and balances between fellow subsidiaries and those with the parent have been eliminated. All transactions with related parties were in the normal course of business and provided on commercial terms.

Material amounts outstanding between the parent and subsidiaries at year end were:

- ▶ Loans from the parent to subsidiaries (Kathmandu Limited) \$82,884,844 (2011: \$84,215,544).
- ▶ Loans to the parent from subsidiaries \$0 (2011: \$0).

Material transactions between the parent and its subsidiaries were:

- ▶ Management fees charged to subsidiaries \$0 (2011: \$341,000).

(a) Key Management Personnel

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Salaries	3,193	2,515	-	-
Other short-term employee benefits	81	1,355	-	-
Employee performance rights	204	246	204	246
Employee share option plans	67	177	67	177
	3,545	4,293	271	423

(b) Non-Executive Directors

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Total directors fees	713	728	713	728

Directors fees for the Parent company were paid to the following:

- ▶ James Strong
- ▶ Sandra McPhee
- ▶ John Harvey
- ▶ John Holland

(c) Remuneration Detail (as referred to in the Remuneration Report)

Name	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS		SHARE BASED PAYMENTS			Proportion of Remuneration as equity related %	Total \$	Proportion of Remuneration as performance related %
	Cash Salary and fees	Cash bonus	Non-Monetary benefits	Super-annuation	Retirement Benefits	Share Options	Performance Rights				
	\$	\$	\$	\$	\$	\$	\$				
Non-Executive Directors											
James Strong	277,534	-	-	-	-	-	-	0.0%	277,534	0.0%	
John Harvey	145,182	-	-	-	-	-	-	0.0%	145,182	0.0%	
John Holland	145,182	-	-	-	-	-	-	0.0%	145,182	0.0%	
Sandra McPhee	145,182	-	-	-	-	-	-	0.0%	145,182	0.0%	
Total Non-Executive Directors	713,080	-	-	-	-	-	-	0.0%	713,080	0.0%	
Executive Directors											
Peter Halkett	850,981	-	59,483	-	-	38,877	110,363	14.1%	1,059,704	0.0%	
Mark Todd	499,753	-	3,374	13,465	-	11,144	48,929	10.4%	576,665	0.0%	
Total Executive Directors	1,350,734	-	62,857	13,465	-	50,021	159,292	12.8%	1,636,369	0.0%	
Other Key Management Personnel											
Michelle Adams	260,778	-	1,346	7,313	-	5,586	7,102	4.5%	282,125	0.0%	
Tamalin Morton	330,283	-	-	19,651	-	7,710	10,146	4.9%	367,790	0.0%	
Paul Stern	330,283	-	-	19,651	-	-	10,146	2.8%	360,080	0.0%	
Caleb Nicolson	242,025	-	3,374	6,897	-	3,240	6,895	3.9%	262,431	0.0%	
Grant Taylor	212,392	-	3,374	-	-	-	6,205	2.8%	221,971	0.0%	
Matthew Watts	213,001	-	9,791	22,201	-	-	-	0.0%	244,993	0.0%	
Brandon Beveridge	164,162	-	696	-	-	-	4,127	2.4%	168,985	0.0%	
Total Other Key Management Personnel	1,752,924	-	18,581	75,713	-	16,536	44,621	3.2%	1,908,375	0.0%	
Total	3,816,738	-	81,438	89,178	-	66,557	203,913	6.4%	4,257,824	0.0%	

2011	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS		SHARE BASED PAYMENTS					
	Name	Cash Salary and fees \$	Cash bonus \$	Non-Monetary benefits \$	Super-annuation \$	Retirement Benefits \$	Share Options \$	Performance Rights \$	Proportion of Remuneration as equity related %	Total \$	Proportion of Remuneration as performance related %
Non-Executive Directors											
James Strong	283,235	-	-	-	-	-	-	-	0.0%	283,235	0.0%
John Harvey	148,174	-	-	-	-	-	-	-	0.0%	148,174	0.0%
John Holland	148,174	-	-	-	-	-	-	-	0.0%	148,174	0.0%
Sandra McPhee	148,174	-	-	-	-	-	-	-	0.0%	148,174	0.0%
Total Non-Executive Directors	727,757	-	-	-	-	-	-	-	0.0%	727,757	0.0%
Executive Directors											
Peter Halkett	627,627	372,000	6,091	-	-	91,884	48,815	12.3%	1,146,417	32.4%	
Mark Todd	350,149	175,000	2,963	7,000	-	26,337	62,499	14.2%	623,948	28.0%	
Total Executive Directors	977,776	547,000	9,054	7,000	-	118,221	111,314	13.0%	1,770,365	30.9%	
Other Key Management Personnel											
Matt Spencer	346,083	175,393	10,590	19,166	-	19,511	29,775	8.2%	600,518	29.2%	
Michelle Adams	206,000	105,000	1,182	4,120	-	13,202	18,393	9.1%	347,897	30.2%	
Tamalin Morton	277,995	155,105	-	19,160	-	18,223	26,277	9.0%	496,760	31.2%	
Paul Stern	304,150	155,105	-	19,839	-	-	26,277	5.2%	505,371	30.7%	
Caleb Nicolson	201,339	102,000	2,963	4,027	-	7,657	17,856	7.6%	335,842	30.4%	
Grant Taylor	173,077	92,000	-	138	-	-	16,071	5.7%	281,286	32.7%	
Total Other Key Management Personnel	1,508,644	784,603	14,735	66,450	-	58,593	134,649	7.5%	2,567,674	30.6%	
Total	3,214,177	1,331,603	23,789	73,450	-	176,814	245,963	8.3%	5,065,796	26.3%	

10 DERIVATIVE FINANCIAL INSTRUMENTS

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Asset				
Interest rate swaps - cash flow hedge	-	2	-	-
	-	2	-	-
Less non-current portion:	-	-	-	-
Current portion	-	2	-	-
Liabilities				
Interest rate swaps - cash flow hedge	990	340	-	-
Foreign exchange contracts - cash flow hedge	2,889	10,466	-	-
	3,879	10,806	-	-
Less non-current portion:				
Interest rate swaps - cash flow hedge	751	301	-	-
Current portion	3,128	10,505	-	-

The above table shows the Group's financial derivative holdings at year end. Refer to note 2(o) for information on the calculation of fair values.

(a) Interest rate swaps - cash flow hedge

Interest rate swaps are to exchange a floating rate of interest for a fixed rate of interest. The objective of the transaction is to hedge the core borrowings of the business to minimise the impact of interest rate volatility within acceptable levels of risk thereby limiting the volatility on the Group's financial results. The total amount of interest rate swaps at balance date was \$45,940,337 (2011: \$40,284,450). The fixed interest rates range between 3.99% and 5.71% (2011: 4.73% and 5.25%).

The effectiveness of the contracts is measured by comparing the changes in the present value of the cash flow arising from the hedged forecast interest rate at fixed rate, with the changes in fair value of the forward contract.

(b) Foreign exchange contracts - cash flow hedge

The objective of these contracts is to hedge highly probable anticipated foreign currency purchases against currency fluctuations. These contracts are timed to mature when import purchases are scheduled for payment. The total of foreign exchange contracts amount to US\$76,750,000, NZ\$99,138,128 (2011: US\$63,050,000, NZ\$84,184,649).

The effectiveness of the contracts is measured by comparing the changes in the present value of the cash flow arising from the hedged forecast purchase at the forward rate, with the changes in fair value of the forward contract.

11 INVENTORIES

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Trading stock	60,391	47,146	-	-
Goods in transit	12,904	6,855	-	-
	73,295	54,001	-	-

Inventory has been reviewed for stock selling below cost and no provision (2011: \$0) has been made.

12 PROPERTY, PLANT AND EQUIPMENT

GROUP	Leasehold improvement \$'000	Office, plant & equipment \$'000	Furniture & fittings \$'000	Computer equipment \$'000	Motor vehicles \$'000	Total \$'000
As at 31 July 2010						
Cost or valuation	28,373	3,565	10,301	6,990	314	49,543
Accumulated depreciation	(10,607)	(2,007)	(3,877)	(4,837)	(197)	(21,525)
Closing net book value	17,766	1,558	6,424	2,153	117	28,018
Year ended 31 July 2011						
Opening net book value	17,766	1,558	6,424	2,153	117	28,018
Additions	9,134	304	1,025	725	-	11,188
Disposals	(137)	-	(28)	(7)	-	(172)
Depreciation charge	(3,902)	(484)	(1,555)	(584)	(28)	(6,553)
Exchange differences	205	27	96	12	1	341
Closing net book value	23,066	1,405	5,962	2,299	90	32,822
As at 31 July 2011						
Cost or valuation	37,178	3,907	11,379	7,621	317	60,402
Accumulated depreciation	(14,112)	(2,502)	(5,417)	(5,322)	(227)	(27,580)
Closing net book value	23,066	1,405	5,962	2,299	90	32,822
Year ended 31 July 2012						
Opening net book value	23,066	1,405	5,962	2,299	90	32,822
Additions	12,407	517	4,077	859	8	17,868
Disposals	(535)	(7)	(779)	(19)	(20)	(1,360)
Depreciation charge	(4,986)	(485)	(2,020)	(421)	(20)	(7,932)
Exchange differences	394	19	85	14	1	513
Closing net book value	30,346	1,449	7,325	2,732	59	41,911
As at 31 July 2012						
Cost or valuation	49,362	4,441	14,070	8,379	252	76,504
Accumulated depreciation	(19,016)	(2,992)	(6,745)	(5,647)	(193)	(34,593)
Closing net book value	30,346	1,449	7,325	2,732	59	41,911

13 INTANGIBLE ASSETS

GROUP	Goodwill NZ\$'000	Brand NZ\$'000	Software NZ\$'000	Total NZ\$'000
As at 31 July 2010				
Cost or valuation	76,677	165,285	3,065	245,027
Accumulated amortisation	(1,271)	-	(1,931)	(3,202)
Closing net book value	75,406	165,285	1,134	241,825
Year ended 31 July 2011				
Opening net book value	75,406	165,285	1,134	241,825
Additions	-	-	676	676
Amortisation	-	-	(862)	(862)
Exchange differences	-	2,023	23	2,046
Closing net book value	75,406	167,308	971	243,685
As at 31 July 2011				
Cost or valuation	76,677	167,308	3,764	247,749
Accumulated amortisation	(1,271)	-	(2,793)	(4,064)
Closing net book value	75,406	167,308	971	243,685
Year ended 31 July 2012				
Opening net book value	75,406	167,308	971	243,685
Additions	-	-	3,985	3,985
Disposals	-	-	(9)	(9)
Amortisation	-	-	(1,599)	(1,599)
Exchange differences	-	3,018	12	3,030
Closing net book value	75,406	170,326	3,360	249,092
As at 31 July 2012				
Cost or valuation	76,677	170,326	7,801	254,804
Accumulated amortisation	(1,271)	-	(4,441)	(5,712)
Closing net book value	75,406	170,326	3,360	249,092

Impairment tests for goodwill and brand

The aggregate carrying amounts of goodwill and brand allocated to each unit are as follows:

GROUP	GOODWILL		BRAND	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
New Zealand	28,654	28,654	51,000	51,000
Australia	46,752	46,752	119,326	116,308
	75,406	75,406	170,326	167,308

For the purposes of goodwill and brand impairment testing, the Group operates as two cash generating units, New Zealand and Australia. The recoverable amount of the cash generating units has been determined based on the fair value less cost to sell.

The discounted cash flow valuations were calculated using projected five year future cash flows, based on Board approved business plans. Growth is expected to continue as the store rollout programme (approximately fifteen stores per year) continues and like for like sales increase. Cash flows beyond five years have been extrapolated using the following key assumptions:

The calculations confirmed that there was no impairment of goodwill and brand during the year (2011: nil). The Board believes that any reasonably possible change in the key assumptions used in the calculations would not cause the carrying amount to exceed its recoverable amount.

The expected continued promotion and marketing of the Kathmandu brand support the assumption that the brand has an indefinite life.

	2012	2011
Terminal growth rate	2.5%	2.5%
New Zealand CGU pre-tax discount rate	15.2%	15.7%
Australia CGU pre-tax discount rate	14.9%	15.4%
Consolidated pre-tax discount rate	15.1%	15.6%

14 INVESTMENT IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name of entity	Equity holding	
	2012	2011
Milford Group Holdings Limited	100%	100%
Kathmandu Limited	100%	100%
Kathmandu Pty Limited	100%	100%
Kathmandu (U.K.) Limited	100%	100%

All subsidiary entities have a balance date of 31 July. Kathmandu Pty Limited and Kathmandu (U.K.) Limited are incorporated in Australia and United Kingdom, respectively. All other subsidiary entities are incorporated in New Zealand.

The principal activities of the subsidiaries are:

	Country of Registration	Principal Activity
Milford Group Holdings Limited	New Zealand	Holding company
Kathmandu Limited	New Zealand	Outdoor retailer
Kathmandu Pty Limited	Australia	Outdoor retailer
Kathmandu (U.K.) Limited	United Kingdom	Outdoor retailer

Investment in subsidiaries	2012	2011
	NZ\$	NZ\$
Milford Group Holdings Limited	321,233,808	321,233,808
Kathmandu Limited	-	-
Kathmandu Pty Limited	-	-
Kathmandu (U.K.) Limited	-	-
	321,233,808	321,233,808

15 DEFERRED TAXATION

The following are the major deferred taxation liabilities and assets recognised by the Group and movements thereon during the current and prior year.

GROUP						
	Tax depreciation NZ\$'000	Employee obligations NZ\$'000	Losses NZ\$'000	Other timing differences NZ\$'000	Reserves NZ\$'000	Total NZ\$'000
As at 31 July 2010	9	695	366	1,657	745	3,472
Charge to the income statement	59	235	(365)	(843)	-	(914)
Charge to other comprehensive income	-	1	-	39	869	909
As at 31 July 2011	68	931	1	853	1,614	3,467
Charge to the income statement	19	(94)	-	854	-	779
Charge to other comprehensive income	-	-	-	44	(1,072)	(1,028)
As at 31 July 2012	87	837	1	1,751	542	3,218

PARENT						
	Tax depreciation NZ\$'000	Employee obligations NZ\$'000	Losses NZ\$'000	Other timing differences NZ\$'000	Reserves NZ\$'000	Total NZ\$'000
As at 31 July 2010	-	69	365	11	-	445
Charge to the income statement	-	(69)	(365)	(11)	-	(445)
As at 31 July 2011	-	-	-	-	-	-
Charge to the income statement	-	-	-	-	-	-
As at 31 July 2012	-	-	-	-	-	-

Certain deferred taxation assets and liabilities have been offset. The following is the analysis of the deferred taxation balances (after offset) for financial reporting purposes:

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Deferred taxation assets:				
- Deferred tax asset to be recovered after more than 12 months	1,461	1,445	-	-
- Deferred tax asset to be recovered within 12 months	1,779	3,057	-	-
Deferred taxation liabilities:				
- Deferred tax liability to be recovered after more than 12 months	(1)	-	-	-
- Deferred tax liability to be recovered within 12 months	(21)	(1,035)	-	-
	3,218	3,467	-	-

Movements

The gross movement on the deferred income tax account is as follows:

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Opening balance	3,467	3,472	-	445
Income statement charge	779	(914)	-	(445)
Tax charged directly to equity	(1,028)	909	-	-
Closing balance	3,218	3,467	-	-

Effective tax rate reconciliation:

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Re-measurement of deferred tax - company tax rate change from 30% to 28%	-	(13)	-	5
	-	(13)	-	5

16 TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Trade payables	10,084	6,685	10	-
Employee entitlements	3,868	4,979	-	-
Sundry creditors and accruals	15,352	9,348	38	42
	29,304	21,012	48	42

The carrying amount of the Group's trade and other payables are denominated in the following currencies:

NZD	5,943	5,624	53	24
AUD	20,064	8,722	(5)	18
GBP	1,768	810	-	-
USD	1,529	5,856	-	-
	29,304	21,012	48	42

17 INTEREST BEARING LIABILITIES

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Non-current portion	53,737	46,480	-	-
Total term loans	53,737	46,480	-	-

The bank loan is part of a multi option facility agreement with Commonwealth Bank of Australia and ASB Bank Limited and a facility agreement with Bank of New Zealand and National Bank of Australia, both dated 19 December 2011. The loans are repayable in full on final maturity date of the facilities being 21 December 2014. Interest is payable based on the BKBM rate (\$NZ borrowings), the BBSY rate (\$A borrowings), or the applicable short term rate for interest periods less than 30 days, plus a margin of up to 1.15%. The bank loans are secured against the assets of the company and its subsidiaries.

The covenants entered into by the Group require specified calculations of Group earnings before interest, tax, depreciation and amortisation (EBITDA) plus lease rental costs to exceed total fixed charges (net interest expense and lease rental costs) at the end of each half during the financial year. Similarly EBITDA must be no less than a specified proportion of total net debt at the end of each half. The calculations of these covenants are specified in the bank facility agreements of 19 December 2011 and have been complied with at 31 July 2012.

The current interest rates, prior to hedging, on the term loans ranged between 3.59% - 4.47% (2011: 3.65% - 5.99%).

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
The maturity analysis of interest bearing liabilities is:				
Payable within 1 year	-	-	-	-
Payable 1 to 2 years	-	46,480	-	-
Payable 2 to 3 years	53,737	-	-	-
Payable 3 to 4 years	-	-	-	-
	53,737	46,480	-	-

18 CONTRIBUTED EQUITY - ORDINARY SHARES

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Ordinary shares fully paid (\$)	197,298	197,049	422,386	422,137
Balance at beginning of year	197,049	197,049	422,137	422,137
Issue of shares under Executive and Senior Management Long Term Incentive Plan	249	-	249	-
Balance at end of year	197,298	197,049	422,386	422,137

NUMBER OF AUTHORISED SHARES	GROUP		PARENT	
	2012 '000	2011 '000	2012 '000	2011 '000
Ordinary shares on hand at beginning of the year	200,000	200,000	200,000	200,000
Shares issued under Executive and Senior Management Long Term Incentive Plan	166	-	166	-
Ordinary shares on hand at end of the year	200,166	200,000	200,166	200,000

Ordinary shares

As at 31 July 2012 there were 200,165,940 ordinary issued shares in Kathmandu Holdings Limited and these are classified as equity. 165,940 shares were issued under the "Executive and Senior Management Long Term Incentive Plan 24 November 2010" during the year ending 31 July 2012 (2011: Nil).

All ordinary shares carry equal rights in respect of voting and the receipt of dividends. Ordinary shares do not have a par value.

19 EMPLOYEE SHARE BASED REMUNERATION

Executive Share Option Plan 16 October 2009:

On 16 October 2009 the Board approved an Executive Share Option Plan to issue options to selected senior executives and to Executive Directors. Options will vest annually in part or in full with the holder, in three tranches commencing 1 October 2010. All options not vested expire on 1 October 2013, and all options vested must be exercised within five years from date of grant. Entitlement to exercise is conditional on the Company achieving in relation to each tranche a compound total shareholder return of 15% per annum over the period of trading that is measured in relation to that tranche. Each option entitles the holder to one ordinary share in the capital of the Company. The exercise price is determined by the Board but is generally \$2.1333 for New Zealand based employees and A\$1.70 for Australian based employees.

During the financial year the Company issued nil options (2011: nil) to Executive Directors and senior executives. The fair value of options issued during the financial year is \$0 (2011: \$0). The

options issued during 2010 were valued under a Monte Carlo simulation approach factoring in the total shareholder return condition using the following assumptions:

Current price at issue date	\$2.14
Risk free interest rate	5.40%
Expected life (years)	5
Expected share volatility	30%

A 50% Net Profit after Tax dividend payout ratio was factored into the valuation of the options based on management budgets. The expected volatility was estimated based on the historical volatility of comparable listed retail businesses.

The estimated fair value for each tranche of options issued is amortised over the vesting period from the grant date.

The Company has recognised a compensatory expense in the income statement of \$21,911 (2011: \$168,587) which represents this amortisation.

Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	2012		2011	
	Average exercise price \$ per share	Options '000	Average exercise price \$ per share	Options '000
Balance at beginning of year	2.1333	1,074	2.1333	1,120
Issued	-	-	-	-
Forfeited	2.1333	(118)	2.1333	(46)
Balance at end of year	2.1333	956	2.1333	1,074

Share options outstanding at the end of the year have the following expiry date, exercise dates and exercise prices.

First Vesting Month	Last Vesting Month	Exercise Price	2012 '000	2011 '000
October 2010	October 2013	\$2.1333	319	358
October 2011	October 2013	\$2.1333	319	358
October 2012	October 2013	\$2.1333	318	358
			956	1,074

Executive and Senior Management Long Term Incentive Plan 24 November 2010

On 24 November 2010, shareholders approved at the Annual General Meeting the establishment of an Employee Long Term Incentive Plan (LTI) to grant performance rights to Executive Directors, Key Management Personnel and other Senior Management. Performance rights will vest subject to the satisfaction of performance conditions which will be different for Executive Directors as compared with the Key Management Personnel and Senior Management.

Executive Directors and Key Management Personnel

Performance rights granted to Executive Directors and six Key Management Personnel are summarised below:

Grant Date	Balance at start of year Number	Granted during the year Number	Vested during the year Number	Lapsed during the year Number	Balance at the end of year Number
30 Nov 2011*	-	221,920	-	-	221,920
29 Nov 2010	374,292	-	-	(29,775)	344,517
	374,292	221,920	-	(29,775)	566,437

* Performance Rights in 2011 only granted to Executive Directors.

The performance rights will vest in three equal tranches. In each tranche 50% of the rights are subject to a relative Total Shareholder Return (TSR) hurdle and the remaining 50% are subject to an EPS growth hurdle.

The proportion of rights subject to the relative TSR hurdle is dependent on Kathmandu Holdings Limited's TSR performance relative to a defined comparable group of companies in New Zealand and Australia listed on either the ASX or NZX, and with market capitalisation indicatively in a range between 300% and 45% of Kathmandu Holdings Limited market capitalisation. The percentage of TSR related rights vest according to the following performance criteria:

Kathmandu Holdings Limited relative TSR ranking	% Vesting
Below the 50 th percentile	0%
50 th percentile	50%
51 st – 74 th percentile	50% + 2% for each percentile above the 50 th
75 th percentile or above	100%

The TSR performance is calculated for the following performance periods:

Tranche	2012	2011
Tranche 1	24 months to 1 December 2013	24 months to 1 December 2012
Tranche 2	24 months to 1 December 2014	24 months to 1 December 2013
Tranche 3	24 months to 1 December 2015	24 months to 1 December 2014

The fair value of the TSR rights have been valued under a Monte Carlo simulation approach predicting Kathmandu Holdings Limited's TSR relative to the comparable group of companies at the respective vesting dates for each tranche. The fair value of TSR rights, along with the assumptions used to simulate the future share prices using a random-walk process are shown below:

	2012	2011
Fair value of TSR rights	\$165,331	\$173,422
Current price at issue date	\$2.48	\$1.62
Risk free interest rate	3.54%	4.79%
Expected life (years)	2-4	2-4
Expected share volatility	36%	38%

The estimated fair value for each tranche of options issued is amortised over the vesting period from the grant date. The Company has recognised a compensatory expense in the income statement of \$54,101 (2011: \$41,948) which represents this amortisation.

The proportion of rights subject to the EPS growth hurdle is dependent on the compound average annual growth in Kathmandu Holdings Limited's EPS relative to the year ending 31 July 2010. The applicable performance periods are:

Tranche	2012 Performance Period	2011 Performance Period
Tranche 1	FY13 EPS relative to FY11 EPS	FY12 EPS relative to FY10 EPS
Tranche 2	FY14 EPS relative to FY11 EPS	FY13 EPS relative to FY10 EPS
Tranche 3	FY15 EPS relative to FY11 EPS	FY14 EPS relative to FY10 EPS

The percentage of the EPS growth related rights scales according to the compound average annual EPS growth achieved as follows:

EPS Growth	% Vesting
< 10%	0%
>=10%, < 11%	50%
>=11%, < 12%	60%
>=12%, < 13%	70%
>=13%, < 14%	80%
>=14%, < 15%	90%
>=15%	100%

The fair value of the rights have been assessed as the Kathmandu Holdings Limited share price as at the grant date less the present value of the dividends forecast to be paid prior to each vesting date. The estimated fair value for each tranche of options issued is amortised over the vesting period from the grant date. The Company has recognised a compensatory expense in the income statement of \$78,923 (2011: \$61,194) which represents this amortisation.

Key Management Personnel

Performance rights granted to Key Management Personnel under the shareholder approved Employee Long Term Incentive Plan are summarised below:

Grant Date	Balance at start of year Number	Granted during the year Number	Vested during the year Number	Lapsed during the year Number	Balance at the end of year Number
30 Nov 2011	-	291,918	-	(291,918)	-
29 Nov 2010	-	-	-	-	-
	-	291,918	-	(291,918)	-

Performance rights granted to each employee vest upon the Company achieving performance hurdles and the employee remaining in employment with the Company until the vesting date. The performance period and vesting dates are summarised below:

	2012	2011
Grant Date	30 Nov 2011	N/A
Performance period (year ending)	31 Jul 2012	31 Jul 2011
Vesting Date	31 Jul 2014	N/A

The fair value of the rights have been assessed as the Kathmandu Holdings Limited share price as at the grant date less the present value of the dividends forecast to be paid prior to the vesting date. The fair value of each right has been calculated to be NZ\$2.23 per right (2011: N/A).

The performance hurdles set for the year ending 31 July 2012 were not met and accordingly no expense has been recorded in the income statement.

Senior Management

Performance rights granted to Key Management Personnel under the shareholder approved Employee Long Term Incentive Plan are summarised below:

Grant Date	Balance at start of year Number	Granted during the year Number	Vested during the year Number	Lapsed during the year Number	Balance at the end of year Number
30 Nov 2011	-	192,670	-	(192,670)	-
29 Nov 2010	177,977	-	(165,940)	(12,037)	-
	177,977	192,670	(165,940)	(204,707)	-

Performance rights granted to each employee vest upon the Company achieving specified performance hurdles and the employee remaining in employment with the Company until the vesting date. The performance hurdles and vesting dates are summarised below:

	2012	2011
Grant Date	30 Nov 2011	29 Nov 2010
Performance period (year ending)	31 Jul 2012	31 Jul 2011
Vesting Date	31 Jul 2013	31 Jul 2012

The fair value of the rights have been assessed as the Kathmandu Holdings Limited share price as at the grant date less the present value of the dividends forecast to be paid prior to the vesting date. The fair value of each right has been calculated to be NZ\$2.35 per right (2011: \$1.50).

The performance hurdles set for rights issued during 2011 were not met for the year ending 31 July 2012 and accordingly no expense has been recorded in the income statement.

Expenses arising from share based payments:

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Share Option Plan 2009	22	169	22	169
Executive Directors and Key Management Personnel	200	103	200	103
Senior Management	149	107	149	107
	371	379	371	379

20 RESERVES AND RETAINED EARNINGS

(A) RESERVES	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
(i) Cash flow hedging reserve				
Opening balance	(9,055)	(4,000)	-	-
Revaluation - gross	6,967	(6,161)	-	-
Deferred tax	(1,072)	869	-	-
Transfer to net profit - gross	(149)	237	-	-
Closing balance	(3,309)	(9,055)	-	-
(ii) Foreign currency translation reserve				
Opening balance	3,889	2,480	-	-
Currency translation differences	3,739	1,409	-	-
Closing balance	7,628	3,889	-	-
(iii) Share based payments reserve				
Opening balance	625	246	625	246
Current year amortisation	371	379	371	379
Transfer to Share Capital on vesting of shares to Employees	(249)	-	(249)	-
Share Options / Performance Rights lapsed	(8)	-	(8)	-
Closing balance	739	625	739	625
Total Reserves	5,058	(4,541)	739	625

Nature and purpose of reserves**(i) Cash flow hedging reserve**

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in policy 2 (n) (ii). The amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

(ii) Foreign currency translation reserve

The foreign currency translation reserve is used to record gains or losses on investments in foreign operations. The amounts

are accumulated in equity and recognised in profit and loss when the foreign operation is partially disposed of or sold.

(iii) Share based payments reserved

The share based payments reserve is used to recognise the fair value of share options and performance rights granted but not exercised or lapsed. Amounts are transferred to share capital when vested options are exercised by the employee or performance rights are granted.

(B) RETAINED EARNINGS	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Opening retained earnings	62,418	43,352	(13,943)	(12,359)
Profit for the year	34,852	39,066	18,281	18,416
Share Options/Performance Rights lapsed	8	-	8	-
Less dividends paid	(20,000)	(20,000)	(20,000)	(20,000)
Balance at 31 July	77,278	62,418	(15,654)	(13,943)

21 DIVIDENDS

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Prior year final dividend paid	14,000	14,000	14,000	14,000
Current year interim dividend paid	6,000	6,000	6,000	6,000
Dividends paid (\$0.10 per share (2011; \$0.10))	20,000	20,000	20,000	20,000

22 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and other network audit firms:

Audit services - PricewaterhouseCoopers	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Statutory audit	122	106	59	57
Half year review	28	25	28	25
Other assurance services	5	7	-	-
Total remuneration for audit services	155	138	87	82

23 CONTINGENT LIABILITIES

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Liabilities outstanding under letters of credit	1,542	2,497	-	-
Rent guarantees	9,848	8,530	-	-
Financial guarantees	1,713	1,188	-	-

Financial guarantees cover internal overdrafts and credit card limits between banks across the Group.

24 CONTINGENT ASSETS

There are no contingent assets in 2012 (2011: nil).

25 COMMITMENTS

(a) Capital commitments

Capital commitments contracted for at balance date are:

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Property, plant and equipment	1,680	131	-	-
Intangible assets	1,183	159	-	-
	2,863	290	-	-

(b) Operating lease commitments

Group company as lessee:

Rent expenses reported in these financial statements relate to non-cancellable operating leases. The future commitments on these leases are as follows:

	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Due within 1 year	39,193	31,708	-	-
Due within 1-2 years	34,446	28,885	-	-
Due within 2-5 years	73,580	62,889	-	-
Due after 5 years	20,048	23,785	-	-
	167,267	147,267	-	-

Some of the existing lease agreements have right of renewal options for varying terms.

The Group leases various properties under non-cancellable lease agreements. These leases are generally between 1 - 10 years.

26 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to manage certain risk exposures. Derivatives are exclusively used for economic hedging purposes, i.e. not as trading or other speculative instruments, however not all derivative financial instruments qualify for hedge accounting.

Risk management is carried out based on policies approved by the Board of Directors. The Group treasury policy provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk. The Parent is not directly exposed to any significant financial risk.

(a) Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the AUD, USD and the GBP. The Group is exposed to currency risk on conversion of the trading results from its subsidiaries operating in Australia and the United Kingdom, and any cash remitted between Australia and the United Kingdom and New Zealand. The Group does

not hedge for such remittances. The Group is exposed to purchases that are denominated in a currency other than the functional currency of Group entities, and over 90% of purchases are denominated in United States dollars. Hedging of this exposure is detailed in note 10. Interest on borrowings is denominated in either New Zealand dollars or Australian dollars, and is paid for out of surplus operating cashflows generated in New Zealand or Australia.

Refer to note 10 which shows the forward foreign exchange contracts held by the Group as derivative financial instruments at balance date. A sensitivity analysis of foreign exchange rate risk on the Group's financial assets and liabilities is provided in the table below.

Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from floating rate borrowings drawn down under bank debt facilities. The Group uses interest rate swaps to hedge floating rate borrowings in accordance with the Group treasury policy. Interest rate swaps have the economic effect of converting borrowings from floating to fixed rates.

Refer to note 10 for notional principal amounts and valuations of interest rate swaps outstanding at balance date. A sensitivity analysis of interest rate risk on the Group's financial assets and liabilities is provided in the table below. Refer to note 17 for further details of the Group's borrowings.

At the reporting date the interest rate profile of the Group's banking facilities was:

CARRYING AMOUNT	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Total secured loans	53,737	46,480	-	-
less principal covered by interest rate swaps	(45,940)	(40,284)	-	-
Principal on floating interest	7,797	6,196	-	-

Interest rates on loans currently range from 3.59% – 4.47% (2011: 3.65% – 5.99%). The Group has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its long-term debt. The cashflow hedge (gain)/loss on interest rate swaps at balance date was \$986,157 (2011: \$338,244).

Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk.

A sensitivity of -10% / +10% (2011: -15% / +5%) for foreign exchange risk has been selected. While it is unlikely that an equal movement of the New Zealand dollar would be observed against all currencies an overall sensitivity of -10% / +10% (2011: -15% / +5%) is reasonable given the exchange rate volatility observed on an historic basis for the preceding

five year period and market expectation for potential future movements.

A sensitivity of 1% (2011: 1%) has been selected for interest rate risk. The 1% is based on reasonably possible changes over a financial year, using the observed range of historical data for the preceding five year period.

Amounts are shown net of income tax. All variables other than applicable interest rates and exchange rates are held constant.

GROUP	INTEREST RATE RISK					FOREIGN EXCHANGE RISK			
	Carrying amount	-1%		+1%		-10%		+10%	
31 July 2012	\$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Derivative financial instruments (asset) / liability	3,879	(459)	209	459	(216)	-	(9,246)	-	7,565
Financial assets									
Cash	1,811	(13)	-	13	-	106	-	(87)	-
Trade receivables and sundry debtors	1,422	-	-	-	-	(79)	-	65	-
		(13)	-	13	-	27	-	(22)	-
Financial liabilities									
Trade payables	29,304	-	-	-	-	(1,869)	-	1,529	-
Borrowings	53,737	537	-	(537)	-	-	(2,179)	-	1,783
		537	-	(537)	-	(1,869)	(2,179)	1,529	1,783
Total increase / (decrease)		65	209	(65)	(216)	(1,842)	(11,425)	1,507	9,348

GROUP	INTEREST RATE RISK					FOREIGN EXCHANGE RISK			
	Carrying amount	-1%		+1%		-15%		+5%	
31 July 2011	\$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Derivative financial instruments (asset) / liability	10,804	(403)	323	403	(331)	-	(12,930)	-	3,489
Financial assets									
Cash	3,574	(26)	-	26	-	405	-	(109)	-
Financial liabilities									
Trade payables	21,012	-	-	-	-	(1,955)	-	528	-
Borrowings	46,480	465	-	(465)	-	-	(2,539)	-	685
		465	-	(465)	-	(1,955)	(2,539)	528	685
Total increase / (decrease)		36	323	(36)	(331)	(1,550)	(15,469)	419	4,174

The parent is not sensitive to either interest rate or foreign exchange risk.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This would arise principally from the Group's receivables from customers. The nature of the customer base is such that there is no individual customer concentration of credit risk. Other financial instruments which potentially subject the Group to credit risks principally consist of bank balances, loans, advances and refund of taxes.

Trade and other receivables

The nature of the customer base is such that there is no individual customer concentration of credit risk. The Group does not carry out credit evaluations for all new customers requiring credit. Credit is generally only given to government or local council backed institutions.

Exposure to credit risk

The below balances are recorded at their carrying amount after any provision for loss on these financial instruments. The maximum exposure to credit risk at reporting date was:

CARRYING AMOUNT	GROUP		PARENT	
	2012 NZ\$'000	2011 NZ\$'000	2012 NZ\$'000	2011 NZ\$'000
Cash and cash equivalents	1,811	3,574	26	5
Trade receivables	206	92	-	-
Sundry debtors	1,216	407	-	-
	3,233	4,073	26	5

As at balance date the carrying amount is also considered the fair value for each of the financial instruments.

(c) Liquidity risk

Liquidity risk is the risk that an unforeseen event or miscalculation in the required liquidity level will result in the Group foregoing investment opportunities or not being able to meet its obligations in a timely manner, and therefore gives rise to lower investment income or to higher borrowing costs than normal. Prudent liquidity risk management includes maintaining sufficient cash, and ensuring the availability of funding from adequate amounts of credit facilities.

The Group's liquidity exposure is managed by ensuring sufficient levels of liquid assets and committed facilities

are maintained based on regular monitoring of cash flow forecasts. The Group has lending facilities of \$142,671,855 (2011: \$126,311,631) and operates well within this facility. This includes short term bank overdraft requirements, and at balance date no bank accounts were in overdraft.

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year NZ\$'000	Between 1 and 2 years NZ\$'000	Between 2 and 5 years NZ\$'000	Over 5 years NZ\$'000
Group 2012				
Trade and other payables	29,304	-	-	-
Guarantees	13,103	-	-	-
Borrowings	3,128	3,128	54,932	-
	45,535	3,128	54,932	-
Group 2011				
Trade and other payables	21,012	-	-	-
Guarantees	12,215	-	-	-
Borrowings	2,163	47,274	-	-
	35,390	47,274	-	-

The Group enters into forward exchange contracts to manage the risks associated with the purchase of foreign currency denominated products.

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant

maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. They are expected to occur and affect the profit or loss at various dates between balance date and the following five years.

	Less than 1 year NZ\$'000	Between 1 and 2 years NZ\$'000	Between 2 and 5 years NZ\$'000
At 31 July 2012			
Forward foreign exchange contracts			
- Inflow	96,243	-	-
- Outflow	(99,138)	-	-
Net Inflow / (Outflow)	(2,895)	-	-
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	(606)	(300)	(83)
At 31 July 2011			
Forward foreign exchange contracts			
- Inflow	73,719	-	-
- Outflow	(84,185)	-	-
Net Inflow / (Outflow)	(10,466)	-	-
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	(254)	(84)	-

Fair values

The following methods and assumptions were used to estimate the fair values for each class of financial instrument.

Trade debtors, trade creditors and bank balances

The carrying value of these items is equivalent to their fair value.

Term liabilities

The fair value of the Group's term liabilities is estimated based on current market rates available to the Group for debt of similar maturity.

Foreign exchange contracts and interest rate swaps

The fair value of these instruments is estimated based on the quoted market price of these instruments.

Guarantees and overdraft facilities

The fair value of these instruments is estimated on the basis that management do not expect settlement at face value to arise. The carrying value and fair value of these instruments is nil. Details of guarantees are included in note 23. All guarantees are repayable on demand.

Financial instruments by category

	Loans and receivables NZ\$'000	Derivatives used for hedging NZ\$'000	Measured at amortised cost NZ\$'000	Total NZ\$'000
Group				
At 31 July 2012				
Cash and cash equivalents	1,811	-	-	1,811
Trade and other receivables	1,422	-	-	1,422
Total financial assets	3,233	-	-	3,233
Trade and other payables	-	-	26,521	26,521
Interest bearing liabilities	-	-	53,737	53,737
Derivative financial instrument liabilities	-	3,879	-	3,879
Total financial liabilities	-	3,879	80,258	84,137
At 31 July 2011				
Cash and cash equivalents	3,574	-	-	3,574
Trade and other receivables	499	-	-	499
Derivative financial instrument assets	-	2	-	2
Total financial assets	4,073	2	-	4,075
Trade and other payables	-	-	18,342	18,342
Interest bearing liabilities	-	-	46,480	46,480
Derivative financial instrument liabilities	-	10,806	-	10,806
Total financial liabilities	-	10,806	64,822	75,628
Parent				
At 31 July 2012				
Cash and cash equivalents	26	-	-	26
Related party receivable	82,885	-	-	82,885
Total financial assets	82,911	-	-	82,911
Trade and other payables	-	-	48	48
Total financial liabilities	-	-	48	48
At 31 July 2011				
Cash and cash equivalents	5	-	-	5
Related party receivable	84,216	-	-	84,216
Total financial assets	84,221	-	-	84,221
Trade and other payables	-	-	42	42
Total financial liabilities	-	-	42	42

Capital risk management

The Group's capital includes contributed equity, reserves and retained earnings.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt or draw down more debt.

Externally imposed capital requirements

The Group is subject to various covenants with its banking syndicate in relation to the ratios of earnings to total debt and interest on that debt, which were complied with during and at the end of the year.

27 SEGMENTAL INFORMATION

The Group operates in three geographical areas: New Zealand, Australia and the United Kingdom.

31 July 2012	Australia NZ\$'000	New Zealand NZ\$'000	United Kingdom NZ\$'000	Elimination NZ\$'000	Total NZ\$'000
Segment profit / (loss) before income tax	29,240	26,977	(3,435)	(1,656)	51,126
Income tax expense	(8,746)	(7,528)	-	-	(16,274)
Profit / (loss) after tax					34,852
Segment profit / (loss) before income tax includes the following specific income and (expenses):					
Sales to external customers	213,974	126,127	7,003	-	347,104
Sales to Group entities	896	1,357	297	(2,550)	-
Cost of sales	(70,839)	(53,489)	(3,231)	-	(127,559)
Interest income	48	83	-	-	131
Interest expense	(2,420)	(1,850)	(4)	-	(4,274)
Other finance costs	(882)	(705)	-	-	(1,587)
Intercompany net finance income/(expense)	(3,867)	3,867	-	-	-
Intercompany recharges income/(expense)	(8,135)	8,135	-	-	-
Depreciation and software amortisation	(5,882)	(3,321)	(328)	-	(9,531)
Exchange gain/(loss) on foreign currency borrowing	1,583	(123)	87	(1,656)	(109)
Additions of non-current assets	13,817	7,831	205	-	21,853
Total current assets	42,676	407,330	3,954	(375,351)	78,609
Total non-current assets	150,085	338,718	246	(194,828)	294,221
Total assets	192,761	746,048	4,200	(570,179)	372,830
Total current liabilities	(97,826)	(9,928)	(7,510)	76,556	(38,708)
Total non-current liabilities	(27,739)	(26,749)	-	-	(54,488)
Total liabilities	(125,565)	(36,677)	(7,510)	76,556	(93,196)

31 July 2011	Australia	New Zealand	United Kingdom	Elimination	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Segment profit / (loss) before income tax	33,149	27,311	(2,568)	(675)	57,217
Income tax expense	(9,723)	(8,428)	-	-	(18,151)
Profit / (loss) after tax					39,066
Segment profit / (loss) before income tax includes the following specific income and (expenses):					
Sales to external customers	187,565	110,335	8,243	-	306,143
Sales to Group entities	216	1,082	62	(1,360)	-
Cost of sales	(58,578)	(43,469)	(3,513)	-	(105,560)
Interest income	141	38	-	-	179
Interest expense	(2,530)	(1,913)	-	-	(4,443)
Other finance costs	(1,158)	(1,098)	-	-	(2,256)
Intercompany net finance income/(expense)	(3,556)	3,556	-	-	-
Intercompany recharges income/(expense)	(6,872)	6,872	-	-	-
Exchange gain/(loss) on foreign currency borrowing	741	56	(340)	(740)	(283)
Depreciation and software amortisation	(4,628)	(2,371)	(416)	-	(7,415)
Additions of non-current assets	7,551	4,244	69	-	11,864
Total current assets	32,381	388,794	3,103	(364,362)	59,916
Total non-current assets	138,507	335,600	695	(194,828)	279,974
Total assets	170,888	724,394	3,798	(559,190)	339,890
Total current liabilities	(88,755)	(11,270)	(3,721)	65,563	(38,183)
Total non-current liabilities	(20,057)	(26,724)	-	-	(46,781)
Total liabilities	(108,812)	(37,994)	(3,721)	65,563	(84,964)

Revenue is allocated based on the country in which the customer is located. New Zealand includes holding company costs and head office charges.

Assets / liabilities are allocated based on where the assets / liabilities are located.

The Group operates in one industry being outdoor clothing and equipment.

Deferred tax assets have been included within non-current assets as they form part of the amounts provided to the Chief Operating Decision Maker, and the comparative information has been updated to reflect this.

28 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares are in the form of share options / performance rights.

	2012 '000	2011 '000
Weighted average number of shares in issue	200,000	200,000
Adjustment for:		
- Share options / performance rights	3,121	3,254
Total potential diluted ordinary shares	203,121	203,254

29 EARTHQUAKE DISCLOSURES

The Christchurch earthquake that occurred on 22 February 2011 has not had a significant impact on trading. Kathmandu has business interruption insurance that provides cover for this event.

As at the date of this report one store (Cashel Street) remains closed and will be for the foreseeable future. A business interruption claim following the 22 February 2011 event has been lodged and remains in process. A further material damage claim has been lodged to cover any loss of inventory and damage to fixtures and fittings in our Cashel Street store. No expected insurance proceeds from these claims have been recognised in the financial statements.

30 EVENTS OCCURRING AFTER THE BALANCE DATE

There are no events occurring after balance date that materially affect the information within the financial statements.



Independent Auditors' Report to the shareholders of Kathmandu Holdings Limited

Report on the Financial Statements

We have audited the financial statements of Kathmandu Holdings Limited on pages 31 to 71, which comprise the balance sheets as at 31 July 2012, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 July 2012 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, Kathmandu Holdings Limited or any of its subsidiaries other than in our capacities as auditors and providing other assurance services. These services have not impaired our independence as auditors of the Company and the Group.



Independent Auditors' Report

Kathmandu Holdings Limited

Opinion

In our opinion, the financial statements on pages 31 to 71:

- (i) comply with generally accepted accounting practice in New Zealand; and
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and the Group as at 31 July 2012, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 July 2012:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

Chartered Accountants
20 September 2012

Christchurch

statutory information

EMPLOYEE REMUNERATION

The Group operates in New Zealand, Australia and the UK where remuneration market levels differ. The offshore remuneration amounts are converted into New Zealand dollars. Of the employees noted in the table below, 50% are employed by the Group outside New Zealand. During the year a number of employees or former employees, not being Non-Executive Directors of the Group, received remuneration and other benefits that exceeded NZ\$100,000 in value as follows:

REMUNERATION		NUMBER OF EMPLOYEES	
\$		\$	
100,000	-	110,000	5
110,001	-	120,000	6
120,001	-	130,000	5
130,001	-	140,000	3
140,001	-	150,000	3
150,001	-	160,000	2
160,001	-	170,000	1
170,001	-	180,000	2
180,001	-	190,000	2
200,001	-	210,000	2
220,001	-	230,000	1
240,001	-	250,000	1
250,001	-	260,000	1
260,001	-	270,000	1
280,001	-	290,000	1
360,001	-	370,000	2
570,001	-	580,000	1
1,050,001	-	1,060,000	1

DISTRIBUTION OF SHAREHOLDERS AND HOLDINGS

	Number of Holders	%	Number of Ordinary Shares	%
1 to 999	413	18%	244,310	0%
1,000 to 4,999	1,007	43%	2,599,489	1%
5,000 to 9,999	460	19%	3,324,653	2%
10,000 to 99,999	430	18%	10,296,080	5%
100,000 and over	50	2%	183,701,408	92%
Total	2,360	100%	200,165,940	100%

The details set out above were as at 7 September 2012.

The Company has only one class of shares on issue, ordinary shares, and these shares are listed on the NZX and ASX. There are no other classes or equity security currently on issue. The Company's ordinary shares each carry a right to vote on any resolution on a poll at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney. Voting may be conducted by voice, by show of hands, or poll. There are no voting rights attached to options.

There were 84 shareholders holding less than a marketable parcel, as defined by ASX Listing Rules, of the Company's ordinary shares, based on the market price as at 7 September 2012.

There are no restricted securities or securities subject to voluntary escrow on issue.

LIMITATIONS ON THE ACQUISITION OF SECURITIES

The Company is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act 2001 (Australia) dealing with the acquisition of shares (i.e. substantial holdings and takeovers).

Limitations on the acquisition of the securities imposed by the jurisdiction in which the Company is incorporated (New Zealand) are:

- a. In general, securities in the Company are freely transferable and the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.
- b. The New Zealand Takeovers Code creates a general rule under which the acquisition of 20% or more of the voting rights in the Company or the increase of an existing holding of 20% or more of the voting rights of the Company can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition of a shareholder holds 90% or more of the shares of the Company.
- c. The New Zealand Overseas Investment Act 2005 and Overseas Investment Regulations 2005 (New Zealand) regulate certain investments in New Zealand by overseas persons. In general terms, the consent of the New Zealand Overseas Investment Office is likely to be required where an "overseas person" acquires shares in the Company that amount to 25% or more of the shares issued by the Company, or if the overseas person already holds 25% or more, the acquisition increases that holding.
- d. The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring shares in the Company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in the market.

SUBSTANTIAL SECURITY HOLDERS

According to notices given under the Securities Markets Act 1988 (New Zealand), the substantial security holders in ordinary shares (being the only class of listed voting securities) of the Company and their relevant interests according to the substantial security holder file as at 7 September 2012, were as follows:

	Ordinary shares	%
Commonwealth Bank of Australia (7 September 2012)	20,980,315	10.5%
Accident Compensation Corporation (7 September 2012)	18,387,591	9.2%
AMP (2 April 2012)	14,872,888	7.4%
Eley Griffiths (05 September 2012)	12,066,312	6.0%
AusBil Dexia (25 November 2009)	10,512,000	5.3%

As at 7 September 2012, the Company had 200,165,940 ordinary shares on issue.

PRINCIPAL SHAREHOLDERS

The names and holdings of the twenty largest shareholders as at 7 September 2012 were:

	Name	Ordinary Shares	%
1	NEW ZEALAND CENTRAL SECURITIES DEPOSITORY LIMITED	47,050,170	23.51%
2	NATIONAL NOMINEES LIMITED	41,180,964	20.57%
3	J P MORGAN NOMINEES AUSTRALIA LIMITED	36,436,374	18.20%
4	CITICORP NOMINEES PTY LIMITED	20,725,399	10.35%
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	10,354,057	5.17%
6	BNP PARIBAS NOMS PTY LTD	4,914,441	2.46%
7	CITICORP NOMINEES PTY LIMITED	4,176,140	2.09%
8	BNP PARIBAS NOMS (NZ) LTD	3,503,279	1.75%
9	PETER HALKETT	1,459,832	0.73%
10	J P MORGAN NOMINEES AUSTRALIA LIMITED	1,365,743	0.68%
11	AMP LIFE LIMITED	1,235,310	0.62%
12	NEW ZEALAND DEPOSITORY NOMINEE LIMITED	1,108,977	0.55%
13	RBC INVESTOR SERVICES – AUSTRALIA NOMINEES PTY LIMITED	950,936	0.48%
14	RBC INVESTOR SERVICES – AUSTRALIA NOMINEES PTY LIMITED	773,977	0.39%
15	BNP PARIBAS NOMS PTY LTD	719,211	0.36%
16	FRANED PTY LIMITED	717,600	0.36%
17	TUATARA TOURS NZ LIMITED	502,432	0.25%
18	QUADRANT PRIVATE EQUITY MANAGEMENT PTY LIMITED	441,176	0.22%
19	QUADRANT PRIVATE EQUITY SERVICES PTY LIMITED	441,176	0.22%
20	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	392,966	0.20%

DIRECTORS' SHAREHOLDINGS

Directors held interests in the following shares of the Company at 31 July 2012:

James Strong	beneficially owned	336,898
Peter Halkett	beneficially owned	1,429,832
Mark Todd	beneficially owned	361,418
Mark Todd	not beneficially owned	43,437
John Harvey	beneficially owned	51,563
John Holland	beneficially owned	82,033
Sandra McPhee	beneficially owned	58,823

SHARE DEALINGS BY DIRECTORS

In accordance with Section 148(2) of the Companies Act 1993, the Board has received disclosures from the Directors named below of acquisitions or disposals of relevant interests in the Company between 1 August 2011 and 31 July 2012, the details of those dealings were entered in the Company's interests register. The particulars of such disclosures are:

Director	Nature of Interest	Shares Acquired	Consideration	Date
Peter Halkett	Beneficial	30,000	NZD 1.64	22/12/2011
James Strong	Beneficial	160,428	AUD 1.70	23/11/2011

SUBSIDIARY COMPANY DIRECTORS

Section 211(2) of the Companies Act 1993 requires the Company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by Directors and former Directors, and particulars of entries in the interests registers made during the year ended 31 July 2012.

No subsidiary has Directors who are not full-time employees of the Group.

The remuneration and other benefits of such employees (received as employees) totalling \$100,000 or more during the year ended 31 July 2012, are included in the relevant bandings for remuneration disclosed at the beginning of the "Statutory Information" section of this annual report.

No employee of the Group appointed as a Director of Kathmandu Holdings Limited or its subsidiaries receives or retains any remuneration or other benefits in their capacity as a Director.

The persons who held office as Directors of subsidiary companies at 31 July 2012, and those who ceased to hold office during the year ended 31 July 2011, are as follows:

Milford Group Holdings Limited

Peter Halkett, Mark Todd

Kathmandu Limited

Peter Halkett, Mark Todd

Kathmandu Pty Limited

Peter Halkett, Mark Todd, Paul Stern (Matthew Spencer ceased to hold office in the year ending 31 July 2012)

Kathmandu (U.K.) Limited

Peter Halkett, Mark Todd

DISCLOSURE OF INTERESTS BY DIRECTORS

In accordance with Section 140(2) of the Companies Act 1993, the Directors named below have made a general disclosure of interest, by a general notice disclosed to the Board and entered in the Company's interests register. General notices given by Directors which remain current as at 31 July 2012 are as follows:

James Strong

Chairman of:

Woolworths Limited
Australian Council for the Arts
Local Organising Committee for the ICC Cricket World Cup 2015

A director of:

Qantas Airways Limited

A member of:

Nomura Australia Limited Advisory Board
Australian Institute of Company Directors
Australian Grand Prix Corporation

Sandra Mcphee

A director of:

AGL Energy Limited
Tourism Australia
Fairfax Media Limited
Westfield Retail Trust

A vice president of:

The Art Gallery of NSW Trust

A member of:

JP Morgan Advisory Council
Advisory Board of MMC
St Vincents and Mater Health Sydney Community Advisory Council

John Harvey

A director of:

DNZ Property Fund Limited
Port Otago Limited
New Zealand Opera Limited
Heartland Building Society Limited
APN News & Media Limited
Balance Agri-Nutrients Limited (appointed 1 Jan 2011)

An advisor to the board of:

Resource Coordination Partnership Limited

John Holland

A partner of:

Chapman Tripp

A member of:

Financial Markets Authority Capital Markets Disclosure Consideration Panel (appointed 1 Feb 2012)

DIRECTORS' AND OFFICERS' INSURANCE AND INDEMNITY

The Group has arranged, as provided for under the Company's Constitution, policies of Directors' and Officers' Liability Insurance which, with a Deed of Indemnity entered into with all Directors, ensures that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors. Certain actions are specifically excluded, for example, the incurring of penalties and fines which may be imposed in respect of breaches of the law.

USE OF COMPANY INFORMATION

There were no notices from Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise have been available to them.

GROUP STRUCTURE

Kathmandu Holdings Limited owns 100% of the following companies:

Milford Group Holdings Limited

Kathmandu Limited

Kathmandu Pty Limited

Kathmandu (UK) Limited

DIRECTORS' DETAILS

James Strong	Chairman, Non-Executive
Peter Halkett	Managing Director and Chief Executive Officer
Mark Todd	Finance Director and Chief Financial Officer and Company Secretary
John Harvey	Non-Executive Director
John Holland	Non-Executive Director
Sandra McPhee	Non-Executive Director

EXECUTIVES' DETAILS

Peter Halkett	Chief Executive Officer
Mark Todd	Chief Financial Officer

DIRECTORY

The details of the Company's principal administrative and registered office in New Zealand is:

11 Mary Muller Drive
Heathcote
PO Box 1234
Christchurch 8140

SHARE REGISTRY

In New Zealand: Link Market Services (LINK)

Physical Address: Level 16, Brookfields House,
19 Victoria Street West,
Auckland 1010
New Zealand

Postal Address: PO Box 91976,
Auckland, 1142
New Zealand

Telephone: +64 9 375 5999

Investor enquiries: +64 9 375 5998

Facsimile: +64 9 375 5990

Internet address: www.linkmarketservices.com

In Australia: Link Market Services (LINK)

Physical Address: Level 1, 333 Collins Street
Melbourne, VIC 3000
Australia

Postal Address: Locked Bag A14
Sydney, South NSW 1235
Australia

Telephone: +61 2 8280 7111

Investor enquiries: +61 2 8280 7111

Facsimile: +61 2 9287 0303

Internet address: www.linkmarketservices.com.au

STOCK EXCHANGES

The Company's shares are listed on the NZX and the ASX.

INCORPORATION

The Company is incorporated in New Zealand.

store locations

AUSTRALIA

VIC

Ballarat
Bendigo
Blackburn
Melbourne (Bourke St)
Camberwell
Camberwell Outlet Store
Chadstone
Chapel St
Doncaster
Fitzroy
Frankston
Geelong
Hampton East
Highpoint
Knox
Moonee Ponds
Moorabbin
Richmond
Smith Street Outlet Store
South Wharf DFO Outlet Store
Southland
Spencer Street Fashion Station
Warrnambool

NSW

Albury
Birkenhead Point Outlet Store
Bondi Junction
Castle Towers

Chatswood Outlet Store
Chatswood Westfield
Cronulla
Erina Fair
Hornsby
Macarthur
Macquarie
Newcastle
Orange
Parramatta
Redyard (Auburn)
Rouse Hill
Shellharbour
Kent Street
Tamworth
The Rocks
Wagga Wagga
Warringah
Wollongong

SA

Adelaide Harbour Town Outlet Store
Marion Shopping Centre
Tea Tree
Adelaide (Rundle Street)

ACT

Belconnen
Canberra Centre

Canberra Outlet Store
Woden

QLD

Brisbane City
Cairns
Carindale
Chermside
Fortitude Valley
Kawana
Logan
Pacific Fair (Broadbeach)
Southport
Toowoomba
Townsville

TAS

Devonport
Hobart
Launceston

WA

Cottesloe
Carousel (Cannington)
Fremantle
Innaloo
Perth Harbourtown Outlet Store
Whitford

NEW ZEALAND

NORTH ISLAND

Albany
Botany
Broadway
Coastlands
Gisborne
Hamilton
Hastings
Lyll Bay
Manukau
Masterton
Napier
New Plymouth
Newmarket Outlet
Onehunga Outlet
Otaki
Palmerston North
Petone
Queen Street (Auckland)
Rotorua
Sylvia Park
Takapuna
Taupo
Tauranga

Tauranga CBD
Te Rapa
Victoria Street (Auckland)
Waitakere
Wanganui
Wellington
Whakatane
Whangarei
Willis St Outlet

SOUTH ISLAND

Ashburton
Blenheim
Cashel St (Christchurch)
Dunedin
Invercargill
Nelson
Papanui
Queenstown
Riccarton
The Palms
Timaru
Tower Junction (Christchurch)

UNITED KINGDOM

Brighton
Bristol
London (Berners St)
London (Covent Garden)
London (Spitalfields)
London (White City)



This book is printed on environmentally responsible paper manufactured using FSC-certified, mixed-source pulp harvested from sustainable well-managed forests and using an elemental chlorine-free process. Vegetable based inks and water-based aqueous coating were used.

Designed and printed by
GEON print and communication solutions
www.geongroup.com



KATHMANDU HOLDINGS LIMITED
ANNUAL REPORT 2012