



**Kathmandu**<sup>®</sup>

live the dream<sup>™</sup>

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ANNUAL REPORT 2013





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## **NOTICE OF ANNUAL GENERAL MEETING**

11:00am Wednesday  
20 November 2013  
Stamford Plaza Hotel  
22-26 Albert St  
Auckland 1010  
New Zealand

# chairman's report



**John Harvey**  
Chairman

**Kathmandu Holdings Ltd achieved record sales and earnings in FY2013. Net profit increased by 26.6% to \$44.2m, following strong same store sales increases in both Australia and New Zealand in tandem with the sales uplift achieved from the 17 permanent new stores opened during the year. Profit growth over the four years since our IPO in 2009 has been founded upon consistently strong yearly sales increases, as we continue to maintain our leadership of the outdoor, travel and adventure categories in Australia and New Zealand. Our growth strategies, underpinned by a substantial capital investment programme, are expected to continue to deliver increasing profits in future years, given reasonable market conditions for outdoor, travel and adventure retailers.**

## MARKET OVERVIEW

The challenging economic environment prevalent since the start of the global financial crisis in 2008 has not shown any substantial signs of easing to date. Nevertheless, despite this environment, demand in the outdoor, travel and adventure categories has proven more resilient than in other consumer discretionary spend categories. In this period, Kathmandu's success, the substantial growth in the number of competitor outlets, and the increase of over 1.5 million / 25% in short term overseas trips by Australians, are just a few of the indicators of this resilience. Only recently have signs of a slowdown in Australia associated with the resources sector, suggested there may be a pullback in consumer spending growth rates that could impact our categories. Your Board continues to have confidence in the resilience of our markets to support our investment in the Kathmandu business and our core growth strategies.

## FINANCIAL RESULTS

The key financial highlights for the year ended 31 July 2013 were:

- ▶ Growth in sales by 10.6% to \$384.0m;
- ▶ Gross profit margin of 63.0% (FY2012: 63.2%);
- ▶ Increase in earnings before interest and tax of 11.2% from NZ\$57.0m to NZ\$63.4m
- ▶ Earnings per share of 22.1 cents per share, up 27.0%.

We achieved solid same store sales growth in both Australia (6.7%) and New Zealand (4.4%). Gross profit margin was slightly down compared to FY2012 but comfortably within the Company's long term targets. Operating costs reduced as a % of sales, and the primary reasons for this were carefully managed advertising spend, and efficient management of head

office and distribution costs enabled by continued investment in improved technology. Overall EBITDA and EBIT margins increased slightly.

## GROWTH STRATEGIES

Kathmandu continues to develop and deliver the following key growth strategies:

- ▶ New store rollout in Australia and New Zealand;
- ▶ Optimise the existing store network;
- ▶ Enhance product offering;
- ▶ Grow our Summit Club Loyalty Programme; and
- ▶ Develop and grow online and digital channel capabilities.

We have recently achieved the milestone of 1 million active Summit Club customers. The size and effectiveness of our customer loyalty programme is a cornerstone of our Australasian business. The real value attached to membership will result in increasing sales in the future. This will be enhanced further by the successful execution of our other growth strategies, as every year we offer new and innovative products to our customers in an expanding network of quality stores and enhanced online capabilities. Our growth strategies are also supported by the commitment we have made to sustainability which we recognise has particular significance to many of our customers, as well as being directly relevant to the future for the wider outdoor, travel and adventure sector.

Our store network is one of a number of available channels to market. Developing the capability of our online platform, and continuously improving our business systems, is critical to our capability to pursue the wider international sales opportunities

available to Kathmandu. The starting point for this is our re-organised UK business, where we are focused on online selling and the introduction of Kathmandu product to the market in other web based channels rather than further store rollout. Our experience in the UK and the performance of that business unit will be an important benchmark for your Board in the pathway to further expansion of the Kathmandu brand globally.

### CAPITAL INVESTMENT

We are continuing to budget for a substantial capital expenditure programme with a focus on delivering our store network plan, including a planned programme for store refurbishment and replenishment, along with investment in systems improvements. Over the past year we completed a record number of new and re-located store projects, and we have invested in the capability to continue this pace of store network expansion as we work towards a target of at least 170 stores in Australia and New Zealand. Additionally, we have a substantial investment continuing in systems development, in particular on the retail platform, to integrate with compatible applications such as our online engine. Our planning and prioritisation for systems upgrades will place us in a strong position to pursue strategic expansion opportunities for the Kathmandu brand.

### DIVIDEND

The Directors have declared an increase in the final dividend to 9 cents per share, which with the 3 cents interim dividend makes a total payout for the year of 12 cents per share, a 20% increase on the previous year. The final dividend will be fully imputed for New Zealand shareholders, and fully franked for Australian shareholders.

This dividend reflects the growth in earnings per share, and represents a payout ratio of over 54%, which is in the middle of the payout range previously advised by the Board.

### PEOPLE

Whilst it is pleasing to be writing this report after such a successful year, it is also very sad to recognise that it coincided with the tragic loss of our founding Chairman,

James Strong AO. James died in March 2013 and the recognition he received from the business, sporting, arts and the wider community reflected his position as an outstanding Australasian of his generation. Kathmandu was very privileged to have had his leadership and guidance during our formative years as a listed company. In May, we were very pleased to announce the James Strong Memorial Project in his honour, which will provide additional education funding to benefit children in the Solu Khumbu, one of the most remote parts of Nepal. This project is being initiated in association with the Australian Himalayan Foundation, an organisation that James and Kathmandu have worked with in recognition of the source of our heritage as an outdoor brand.

I have had the privilege to act as Interim Chairman for the period since James' death, and your Board expects to be in a position to announce the appointment of an additional independent Director at our Annual General Meeting. The Board again thanks Kathmandu's Chief Executive Officer, Peter Halkett, and his team for the results achieved by the Company in FY2013. The Kathmandu team successfully support and deliver the growth opportunities we target year after year, in a working and business environment where change is the norm rather than the exception. This reflects their capabilities and commitment to the long term success of our brand.

### OUTLOOK

Your Board believes there are sound reasons to remain confident about Kathmandu's prospects for continued growth. The New Zealand economy is in relatively good shape, and despite the recent slow-down in the Australian economy, we consider most Australian consumers spending money in our category are still benefitting from a relatively strong exchange rate and they retain reasonable confidence in general. Economic indicators globally are more positive than a year ago, even if that improvement is relatively small.

We believe that the Kathmandu brand has the opportunity and genuine potential to develop a significant global presence in the outdoor, travel and adventure market. However we are still very clear that the short term key growth strategy remains to invest and grow Kathmandu's business and brand in the Australasian market. We anticipate a solid performance again next year as Kathmandu maintains its pre-eminent position as the brand of choice for outdoor, travel and adventure customers in Australia and New Zealand.

#### Perth, Australia



A handwritten signature in black ink, appearing to read 'John Harvey'.

**John Harvey**  
Chairman

# highlights

## for the year



**SALES UP 10.6%**



**RECORD PROFIT AT \$44.2M**

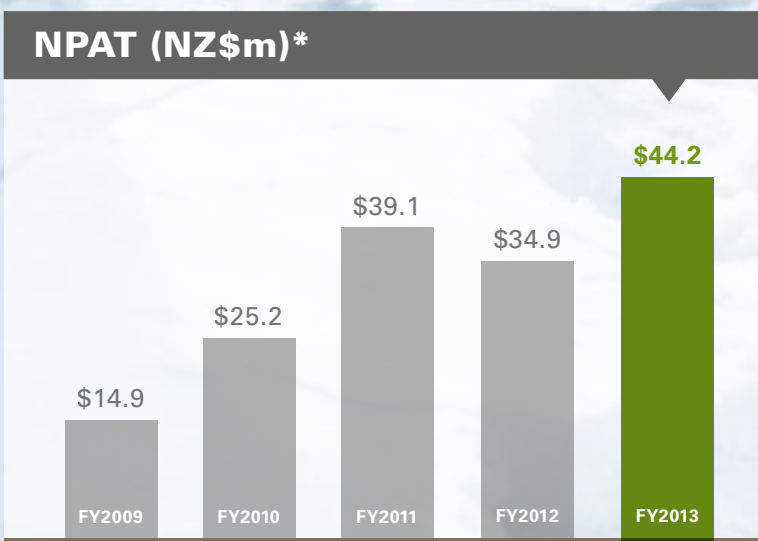
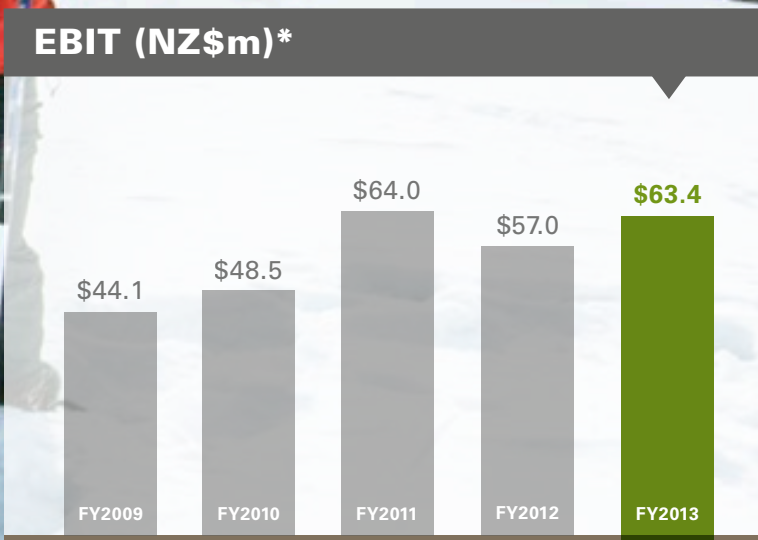
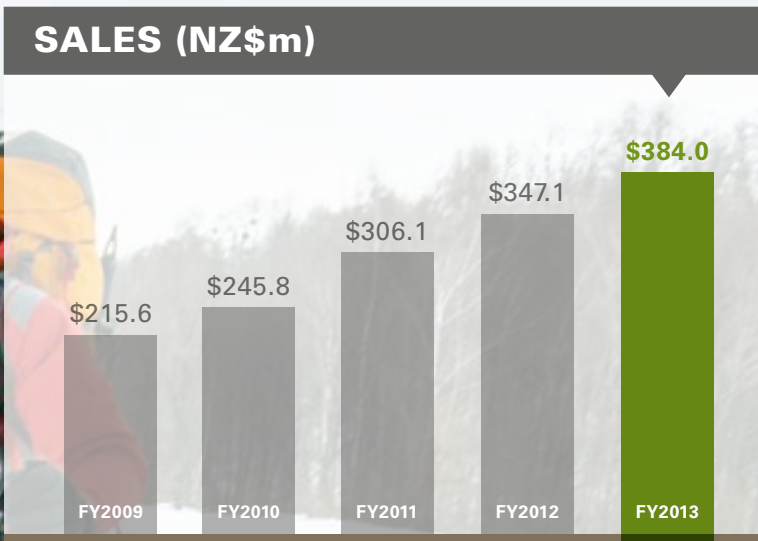


**STORE COUNT UP TO 136**



**SUMMIT CLUB MEMBERSHIP  
OVER 1 MILLION**





\*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 increased 10.6% to \$384.0m.
- ▶ Same store sales growth of 5.6% at constant exchange rates.
- ▶ Strong gross profit margins.
- ▶ Online sales grew by 55% and are now over \$15.0m per annum.
- ▶ Summit club membership exceeds 1 million customers.
- ▶ UK business re-organisation completed.
- ▶ Australian distribution centre floor space extended by 50%.
- ▶ 17 permanent new stores opened.
- ▶ Record earnings result; net profit after tax \$44.2m, up 26.6%; improved EBIT margin and earnings per share.

## RESULT OVERVIEW

Kathmandu's FY2013 sales and profit result was very pleasing, with strong same store sales growth in both New Zealand and Australia underpinning a substantial increase in earnings. Gross profit margins achieved during the year were little changed from FY2012, and the resulting increase in gross profit coupled with improved operating expense leverage, lifted Group earnings to record levels. This result was achieved despite tough market conditions for discretionary retailers, and the continuing expansion of both local and international competitors through more store fronts and online sales channels.

The sales performance in FY2013 warrants particular mention. It is always challenging in an economic environment characterised by low levels of growth and consumer confidence, to achieve the combination of acceptable same store sales growth whilst maintaining gross profit margins. A very small reduction in gross profit margin did occur, down 20 bps over the full year, but this was primarily a reflection of product mix and timing. We continued to effectively maintain Kathmandu's retail price points and value proposition in a period of aggressive promotional activity from our major competitors. Kathmandu's sales grew 19.5% in Australia and 8.6% in New Zealand, as we improved our market penetration and brand awareness in Australia, coupled with strong support for key promotions in both countries from our growing Summit Club membership base.

Our FY2013 sales included excellent results from a number of newly opened small format stores in prime retail locations in Australia, which immediately met or exceeded our initial sales expectations. We opened 17 permanent new stores, and overall we were trading in 137 locations at 31 July (including one short term lease). Most new stores were Australian mall stores, usually utilising our latest small format concept.

Additionally, our online sales channel continued to deliver excellent sales growth, up 55% year-on-year. In both Australia and New Zealand, we achieved a positive same store sales increase from our bricks and mortar stores.

Operating expenses continued to be well controlled, and reduced by 30 bps as a % of sales. The increasing portion of expenses being incurred in our Australian retail stores where operating costs are structurally highest, will continue to counterbalance leverage obtained from the relative lower rate of increase in the operating costs of other areas of the business.

Kathmandu's excellent overall performance this year reflects the successful execution of our key growth strategies that we have regularly communicated to our shareholders since our IPO in 2009. Throughout this period, a key strategy has been the enhancement of our customer loyalty programme. We now have more than 1 million active Summit Club members, and we plan to further enhance the benefits for members in the future. We are confident our evolving product range and store network, in tandem with the loyalty that our core customers have for the Kathmandu brand, will continue to support further growth.

## BUSINESS OVERVIEW

### THE KATHMANDU BUSINESS MODEL

The completion of our brand identity upgrade project is an appropriate milestone to reflect upon the success of the Kathmandu business model. We are first and foremost a brand, and then a retailer. Kathmandu branded product can still only be bought today through our wholly owned store network and our websites. The majority of our customers are Summit Club members rather than off the street consumers, and they strongly support a long-established promotional model that has



three major sales events per year. This vertical business model has been the foundation of Kathmandu's growth in Australasia for the past 15 years, and we have continued to improve and adapt over this period. Our successful execution of this model, coupled with growing brand recognition, and product loyalty that Kathmandu commands in its key markets, has seen Group sales increase by over \$165m or 75% in the four years since our IPO.

The same period of time has seen the spectacular growth of the internet as a platform for social and consumer interaction. Kathmandu, as a vertically integrated brand business with strong margins in a growing category, is well placed to take advantage of this opportunity, both locally and internationally.

We continue to build on our existing business, primarily through store rollout in Australia, where we still see many opportunities to increase Australian brand awareness and market penetration relative to the level achieved in New Zealand. In tandem with continuing to execute the model we know well, the online opportunity will continue to get an increasing share of our management attention and strategic investment.

#### PRODUCT RANGE AND INVENTORY

Product is a key to our success. Ensuring we are bringing to market innovative, well designed, high quality and competitively priced products that meet the needs of our customers is essential to our future success. Over the last seven years we have invested in our product team and recruited many new skills and capabilities into the business. Capability in areas such as design, quality and fabric R&D have all been added, and their impact on product development will be seen in the seasons ahead.

We intend to increase our return from each sku in our product range, through revenue growth and reduced cost to market ratios, relative to the absolute level of inventory investment and the costs associated with new product development. Assortment range planning is a key medium term enhancement required from our systems upgrade project, which will enable us to maximise our performance in this area.

Inventory levels were well managed throughout the year, and the total value of inventory, \$80.0m at 31 July 2013, was an 9.1% increase on the prior year. One-third of this increase was the year-on-year change in goods in transit for the summer season in FY2014, so after excluding this amount, the value of stock on hand at 31 July was less than \$5m higher than a year earlier, a 4.3% reduction when measured on a per store basis. This was an excellent outcome given the growth in both sales and store numbers, and it was further reflected in reduced volumes of clearance stock, especially in the second half of the year. We do expect a slightly higher rate of inventory growth in FY2014, as we are focused on maintaining adequate range depth in key product groups planned to support key promotional events across the year, as well as further improving our seasonal range availability in regions with major climatic variations.



#### ONLINE AND DIGITAL

Our investment in information systems infrastructure and software continues to be a critical part of our business improvement strategy. During FY2013 we made the strategic decision to follow the development path provided by Microsoft Dynamics AX for Retail in a number of core operational areas of the business. We have already gone live with modules relating to Customer Relationship and Product Information Management, and our Forecasting and Planning software will be live early in FY2014. There is a clear pathway for Kathmandu to substantially upgrade its core systems utilising the AX suite of applications, and replacement of our current Point Of Sale software during the second half of FY2014 is the next stage of our development plan.

In FY2014 our online platform will continue to be enhanced as we progress with building systems infrastructure capable of supporting both our current Australasian business growth, and the future development of new multichannel retail options. Potential opportunities for the Kathmandu brand internationally, outside our core markets, cannot be effectively pursued until we have implemented a tier one software platform which properly integrates our retail stores and websites globally.

#### STORE NETWORK

The makeup of Kathmandu's store network and our strategy for the location and sizing of new stores has continued to evolve through our four years as a listed company, especially in Australia which remains our key growth opportunity for ongoing store rollout. As we previewed in last year's annual report, our store network plan has been further developed to focus on small format site opportunities (stores of 350m<sup>2</sup> or less). In Australia, this store format has become our standard in mall locations, aligning well with the planned growth we are achieving from more lifestyle orientated apparel categories.

We are confident that the Kathmandu store network when fully rolled out across New Zealand and Australia will number at least 170 stores. All current Kathmandu stores in Australasia make a positive contribution to group earnings.

Permanent store numbers totalled 136 as at 31 July: New Zealand 44, Australia 87 and UK 5. Since balance date we have closed our Westfield White City store in the UK. We continue to trade successfully in a temporary site in the Christchurch Re-start precinct.

The permanent new stores opened during the year were:

**Australia:** Carindale (Brisbane), Fountain Gate (Melbourne), Tuggerah (NSW), Robina (QLD), Morley Galleria (Perth), Pitt St (Sydney), Mackay (QLD), Coffs Harbour (NSW), Casuarina (Darwin), The Glen (Melbourne), Eastgardens (Sydney), Hobart CBD (TAS), Penrith (Sydney), Nunawading Brand Smart (Melbourne). Moonee Ponds in Melbourne was originally opened in FY2012 as a temporary site, but is now a permanent store.

**New Zealand:** Pukekohe and Westgate (Auckland).

**United Kingdom:** Kensington High St (London).

We closed our Berners St (London) and Brighton stores during the year as part of the re-organisation of our UK business detailed later in this report.

There was an uplift of earnings from the new stores opened in the last year, relative to the comparable group opened in FY2012. In FY2014, we have seven new store leases currently confirmed; five of these are expected to open by the end of 2013. This is a slightly slower rate of opening than in the first half of FY2013, but we are confident that we will achieve our target of 15 new stores again in FY2014.

Re-investment in our existing store portfolio will continue to be very important with regard to sustaining strong same store sales growth over the medium and long term. In FY2013, we relocated our flagship store in the Perth CBD. We also relocated our Richmond (Melbourne), and Nelson and Invercargill stores in New Zealand to larger and more visible premises. These relocations were all opportunities to move to better located and larger sites appropriate for maximising sales growth in those markets. Major refurbishments were carried out at the Highpoint and Knox City stores in Melbourne, our Bondi Junction store in Sydney, and our Covent Garden store in London. Investment in projects of this type will be increasingly important in future years as we maintain our market leadership position.

## UK BUSINESS

We undertook substantial work re-organising the UK business and store portfolio in FY2013. Most of this work and the associated planned capital expenditure has now been completed. Only the refurbishment of our Spitalfields store remained in progress, and this store re-opened in September. The 18 month re-alignment of the UK business has involved:

- ▶ In FY2012, closure of our UK regional office and warehouse and shifting to an outsourced distribution service.
- ▶ In FY2013;
  - Re-aligning our London store portfolio to position these in appropriate locations for outdoor and travel apparel and equipment retailing. We closed our Berners Street and White City stores, and opened a new store in Kensington High Street. This store, along

with our Covent Garden and Spitalfield stores are all in close proximity to major competitors in the UK market.

- Refurbishing the London stores with the new Kathmandu branding and fixtures.
- Placing all ongoing customer services and UK support functions in our Bristol store, which is our only regional location following the closure of our Brighton store.

The UK market remains challenging. It is a weakened economy post the GFC, and daily competitive retail price points are more critical than ever. There is relatively less affinity with the outdoor and travel category in the UK compared to Australasia, and a much stronger uptake of shopping online rather than in retail stores. It is this last aspect of consumer buying behaviour in the UK market that is our key future focus. We plan for our reduced store network to support a more aggressive online based selling strategy across the UK. Our future investment in the UK is intended to grow Kathmandu brand awareness and support year-round competitive promotional activity, in both our own and other relevant online channels.

## INFRASTRUCTURE

FY2013 was generally a year of consolidation in our office and distribution infrastructure. We completed the planned enlargement of our Melbourne Distribution Centre. In FY2012 we ended the previous sublet of one-third of the premises, and in the first half of FY2013 we completely re-worked the internal layout of the warehouse to better cater for current and projected growth in activity levels. Apart from this project, there was a limited requirement for expenditure on infrastructure assets to support the store network. The exception to this was our continuing investment in systems improvement. We expect a similar scenario to apply in FY2014.

## FINANCIAL PERFORMANCE

Group sales \$384.0m increased by 10.6% over the previous year. The increase in same store sales, by 1.8% overall and 5.6% at constant exchange rates, was a good outcome given market conditions. Country by country change in same store sales was as follows:

- ▶ Australia 6.7%
- ▶ New Zealand 4.4%
- ▶ UK (6.5%).

Total gross profit increased by \$22.5m (10.3%). The gross margins achieved continue to sit comfortably within our long term target range of 62% to 64%, and generally match the levels achieved last year. Gross margins were up 10bps in New Zealand and down 60 bps in Australia. As previously noted, the relatively small gross margin variations in FY2013 compared to the prior year were primarily attributable to the product mix sold and the timing of sales during our key promotional periods. Weather, particularly in winter, can influence our gross profit outcome, however in Australia and New Zealand we assess the weather impact was neutral overall in FY2013. Also, the hedging rates we received on USD purchasing in FY2013 and the impact



of input cost changes were not particularly significant with regard to the year-on-year variation in gross margin.

Expenses, excluding depreciation, amortisation and financing costs, increased by \$15.0m (9.8%). This was a decrease as a percentage of sales from 44.1% to 43.8%, but there was a favourable movement in the NZD:AUD cross rate during the year.

Across the year:

- ▶ Property rent increased by \$4.2m (10.6%) and was unchanged as a % of sales (11.4%). When reviewed prior to adjusting for the impact of exchange rates, rent in Australia did increase as a % of sales by c.40bps, as we continued our planned strategy of opening stores in higher cost but ultimately more profitable locations.
- ▶ All other operating expenses reduced by 30 bps as a % of sales, largely as a result of operating cost efficiencies in distribution and advertising. Excluding advertising costs, operating expenses increased slightly as a % of sales due to the increased weighting of our Australian retail stores.
- ▶ We continued to increase necessary operating and capital expenditure to support growth in the online sales channel, and the uplift in expenses relating to online partially offset the savings in other operating costs as a % of sales.

Our expectation with regard to the core Australasian business remains that the pattern of reducing overheads as a % of sales in areas such as warehousing and distribution, will be approximately offset by increasing store rental, retail direct costs and online costs.

Operating expenses were similar in total dollars between the first half and second half of FY2013. We expect our trading pattern and resulting earnings profile for the Australasian market between first half and second half in each financial year to continue. Specifically, our c.40/60 split of total sales between two half years matched with operating costs that are incurred on close to a 50/50 basis for the same periods, will mean Australasian earnings growth will continue to be primarily determined by performance in the second half of each financial year.

Our level of capital expenditure in FY2013 was very similar to the prior year, after adjusting for \$2.2m of FY2012 spend that related to projects completed in FY2013. Our average spend per completed capital project was not as high as anticipated. This was mainly attributable to effective management of the cost of new and existing store projects, along with later than planned timing of spend on major systems projects. We opened seven more permanent stores in FY2013 than in FY2012, and also completed more relocation and refurbishment projects than in the prior year. Depreciation and amortisation expense increased by \$1.1m, 11.6%. We are forecasting to increase capital expenditure in FY2014, and our planned capital projects mean that we will maintain an annual capital expenditure spend of \$20m or more for several years ahead.

We recently extended our existing bank facilities for a further year to the end of 2015, on slightly improved terms, and with a A\$10m increase in facility limits related specifically to increased requirements for rental bonds, guarantees and trade credit instruments. The total available banking facility remains

sufficient to meet our capital expenditure requirements in tandem with Kathmandu's working capital cycle. Facility fees and interest expense in FY2013 were down by over \$1.4m compared to the prior year, and the better terms attached to the facility agreements now in place were the major reason for this year-on-year reduction.

Net profit after tax increased by \$9.3m after a favourable taxation expense outcome for the year. Total tax expense of \$14.8m includes the benefit of the reduced tax charge in the Australian trading company (Kathmandu Pty Ltd) arising from the annual revaluation of its NZD denominated loan from Kathmandu Ltd. This loan primarily arises from the amount due by our Australian subsidiary for the purchase of the IP and rights to use the Kathmandu brand in Australia, based on the valuation determined at the time of the IPO in 2009. Because it is NZD denominated, exchange rate conversion gains (or as

in this year losses) on the value of the loan at each balance date are taxable in the Australian company. Whilst this loan remains outstanding, this one-off benefit in FY2013 could reverse in a future year when the AUD:NZD exchange rate strengthens.

### SUSTAINABILITY

Kathmandu is committed to a sustainable future. In recognising its importance to our customers, investors and our team, sustainability is a Kathmandu core value. Our sustainability journey continued in 2013 and brought to a close our first 'Sustain the Dream Plan 2011-2013'. This plan set out the pathway for driving our sustainability performance in the areas of our people, our customers, our products and our community.

We have made considerable progress in integrating sustainability into the way our business is organised and run,



and have developed a new two-year sustainability plan for 2014 - 2015. Our goal is to deliver value to our stakeholders through sustainability, while positioning Kathmandu as a leader in this area.

A full account of our achievements is in our annual 2013 sustainability report, prepared in accordance with the Global Reporting Initiative guidelines.

### OUR TEAM

Employee numbers as at 31 July 2013 increased from 1,722 last year to 1,920 this year, in line with our continuing growth in store numbers. Approximately 69% of the total workforce is full time or part time permanent employees. We have made a substantial investment in training and development capability during the year. It remains important to our success, that Kathmandu's staff continue to maintain their positive view of us as their preferred employer, and that we provide a career pathway to leadership roles within our business and the wider retail sector. On a personal note I want to thank my Executive management team for the support and leadership they provided in delivering an excellent result, in particular during my period of absence from the business during the second half of FY2013.

### MARKET OVERVIEW AND FUTURE OUTLOOK

Kathmandu faces strong and growing competition from local and international outdoor and travel brands and retailers. The latter group are increasingly moving, in whole or in part, to operating the same vertical business model as Kathmandu. Overall this model appears to be the most successful and resilient retail model in our current markets, and it aligns effectively with online sales channels. The outdoor category remains an attractive sector for investment, hence there continues to be both local and global merger and acquisition opportunity for good outdoor businesses and brands. The sustained growth in category store numbers over a number of years in both New Zealand and Australia reinforces our assessment of the relatively strong outlook for the category. This contrasts with other retail sectors dependent on discretionary consumer spend that have been much less resilient since the 2008 GFC.

### GROWTH OPPORTUNITIES

We continue to develop our store network plan to ensure our target of 170+ stores in Australia and New Zealand is aligned with our continuously evolving analysis of the optimal footprint and location for each prospective new site, and in due course numerous current sites that we will relocate. In conjunction with this, to further maximise store-by-store profitability, our product development and ranging strategy will continue to link closely into store planning.

We now have 1 million active members in our Summit Club programme. Our improved customer relationship management platform will further enhance our ability to target the right offers to these core customers. Summit Club fits well with the opportunity for growth in online sales, in both current and future markets.

Just as in our retail stores, retention of customers in the online space will be strongly influenced by how well we utilise customer analytics, and how we engage with those customers through channels such as social media and unique online only deals. Customer relationship management is critical to us in building the Summit Club through all channels we sell in.

We have confidence that the Kathmandu brand and its product range can have wider growth potential internationally, and we are going to test this going forward with greater focus in the UK market initially. Our development of a path for global growth of the Kathmandu brand requires us to learn from the re-organised UK business, now a relatively low cost and low risk aspect of the business.

We intend to take up on a structured basis the opportunities that online and digital technology provide, and the quality and effectiveness of our systems must be adequate to enable us to operate globally in a multichannel environment. We have recently launched a selected range of Kathmandu product on Amazon UK, and plan to explore other similar marketplace opportunities. Development is underway to enhance our capability to transact with customers via mobile devices, providing functionality for flexible ordering and customer product collection. These are all steps in developing the systems required to support growth initiatives available to Kathmandu outside our current business model.

Kathmandu's future continues to look positive, with opportunities for growth continuing to be identified, prioritised and implemented. We believe our competitive advantage, and a profitable core business, will enable us to grow our brand's market reach.



**Peter Halkett**

Managing Director and Chief Executive Officer

# board



left to right - John Holland, Christine Cross, Peter Halkett, John Harvey, Sandra McPhee and Mark Todd.

## John Harvey

Chairman

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 DNZ Property Fund, Heartland Bank, Ballance Agri-Nutrients, Port Otago and NZ Opera.

## 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 15 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.

Mr Todd is currently a non-Executive Director of City Care.

## 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 currently a non-Executive Director of Southbase Construction, 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 AM

Non-Executive Director

Ms McPhee is an experienced executive and non-Executive Director in consumer facing sectors including aviation, retail, energy and media. She held a range of senior international executive roles in the aviation industry, most recently with Qantas Airways Limited.

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

## Christine Cross

Non-Executive Director

Ms Cross has extensive experience in the international retail and consumer goods sector including 14 years as a Director on the operating board of Tesco Plc.

Ms Cross currently runs a retail advisory consultancy focusing on international best practice in customer led business planning and value chain management. Ms Cross also has Non-Executive Directorships with Woolworths, Next plc, Sonae Group plc and Plantasjen. In addition Ms Cross is an advisor to several private equity funds and private companies.

# management

	<b>Peter Halkett</b>	Managing Director and Chief Executive Officer	Refer to Page 12.
	<b>Mark Todd</b>	Finance Director and Chief Financial Officer	Refer to Page 12.
	<b>Tamalin Morton</b>	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).
	<b>Michelle Adams</b>	GM, Product	Joined Kathmandu in 2009 following extensive product and brand management experience with Pacific Brands and Canterbury.
	<b>Caleb Nicolson</b>	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.
	<b>Paul Stern</b>	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.
	<b>Grant Taylor</b>	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.
	<b>Matthew Watts</b>	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.
	<b>Brandon Beveridge</b>	GM, Retail (New Zealand)	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 2013.

## 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 16 November 2012, and ceased in these offices as at 4 March 2013.

### 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 re-appointed as a non-Executive Director, Chair of the Audit and Risk Committee, Member of the Remuneration and Nominee Committee on 16 November 2012, appointed as Interim Chairman and retired as Chair of the Audit and Risk Committee on 25 March 2013. He 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, appointed as Interim Chair of the Audit and Risk Committee on 25 March 2013, 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.

### Christine Cross

Was appointed as a non-Executive Director, Member of the Remuneration and Nominee Committee on 12 December 2012, and continues in these offices at the date of this report.

## RETIREMENT OF DIRECTORS

In accordance with the Company's constitution, John Holland and Sandra McPhee 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 2013 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	4	4	4	4	4	4
Peter Halkett	6	8	XX	XX	XX	XX
Mark Todd	8	8	XX	XX	XX	XX
John Harvey	8	8	7	7	8	8
John Holland	7	8	7	7	7	8
Sandra McPhee	8	8	7	7	8	8
Christine Cross	4	4	XX	XX	4	4

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 \$44,174,000 (2012: \$34,852,000).

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 outdoor, 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 9.0 cents per share. Dividends will carry full New Zealand imputation credits and full Australian franking credits. The dividend will be paid on 22 November 2013.

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, PERFORMANCE RIGHTS VESTING

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 provided generally follows the same principles 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 Company's Remuneration and Nomination Committee is the primary body that determines the quantum and framework of Directors and Executive remuneration. The composition, role and responsibility of the Committee is outlined in the Corporate Governance Statement on page 26 of this annual report. The Committee adopts a series of principles in determining remuneration related decisions. The principles used are:

- ▶ Remuneration (quantum and/or structures) 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 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 achievement 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 includes all Executives, which are personnel who are reporting directly to the Chief Executive Officer or Chief Financial Officer, designated as an Executive by the CEO and with responsibility and authority for management of a significant profit or cost centre. Executives 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 measurable 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 (at least 45%) 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 key and 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.
- ▶ The Board uses discretion when setting remuneration levels, taking into account the current market environment.

### REMUNERATION REVIEW 31 JULY 2013

The Board on the advice of the Committee has accountability to set all Executive remuneration. Recognising the principles above, the current prevailing market conditions and the reported performance of the Company, the committee determined the following in relation to the 31 July 2013 review of base remuneration:

- ▶ Board Directors, 3% increase;
- ▶ Executive Directors, no increase in base salary for Chief Financial Officer. Chief Executive Officer remuneration detailed below;
- ▶ Executives, base salary increase 2% in New Zealand, 2.5% in Australia;

There was no increase in any of the base remuneration levels in the 31 July 2012 review of remuneration.

The structure and levels of available short and long term incentives for FY2014 have been reviewed. In considering the total remuneration opportunity made available, the Board on the advice of the Committee have determined it is appropriate to increase the quantum of incentive based earnings available for Executives and Executive Directors. This will enable higher total remuneration to be earned by these employees, but only in conjunction with the Group achieving appropriate financial performance targets for the relevant future period of performance management.

### EXECUTIVE REWARDS

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.

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 associated requirements 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.

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

#### 2. Short term cash incentives

Executives including the Executive Directors 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.

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. This criterion excludes depreciation and amortisation expenses arising from the substantial capital investment programme approved and overseen by the Board over the medium term. The programme dollar spend and number of projects, means substantial variability in the depreciation and amortisation expense arising year by year is possible. This could be both within and beyond Executive

control given the nature and mix of the Group's capital assets and leases, and the structure of the Group Executive whereby the bulk of the capital investment programme is determined and approved by the Chief Executive Officer and/or the Chief Financial Officer.

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 of individual KPI's.

For the year ended 31 July 2013 the Group's financial performance targets were not met and the annual short term cash incentive was not paid. A smaller discretionary cash bonus was paid to key and senior management personnel including Executives in recognition of the EBITDA result for the year being very close to the annual performance target once the adverse impact of non-controllable exchange rate (AUD to NZD) translation was adjusted for.

For the year ended 31 July 2012 the Group's financial performance targets were not met and 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. Key and senior management personnel including Executives participate in short term equity incentives.

Executives excluding the Executive Directors have 50% of the total value of their annual short term incentive 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 annual short term incentive is a lower % of their base salary than for other Executives, and all of their annual short term incentive is cash based.

Senior management personnel also have an annual short term incentive that is equity based, generally up to 15% of base salary, 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 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, or
- ▶ the senior management 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.

For the years ended 31 July 2013 and 2012 the Group's financial performance targets (EBITDA) were not met and consequently no short term equity incentives granted to Executives (including the Executive Directors) or senior management personnel in relation to this period will vest.

### 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 (five of these Executives are still employed as at 31 July 2013). 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 three 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 the current 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.

From 2011 onwards, the Committee resolved to grant 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.

### NON-EXECUTIVE DIRECTORS' FEES

The current aggregate limit for non-Executive Directors' fees is \$A800,000 per annum. In FY2013 the 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 \$A10,000 per annum is paid for sub-committee attendances. These amounts were increased by 3% with effect from 1 August 2013.

The Managing Director and Finance Director do not receive Directors' fees. The amounts approved for Directors' fees are expressed in AUD 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 NZD, 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 2013 (converted to reporting currency)	NZD \$
Chairman	267,876
Other non-Executive Directors	140,139

## B DETAILS OF REMUNERATION

The following Executives along with the Directors are identified as 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

**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 full years ended 31 July 2013 and 2012, unless otherwise stated. Mark Todd, Michelle Adams, Caleb Nicolson, Grant Taylor and Brandon Beveridge are employees of Kathmandu Limited (New Zealand domiciled), and Peter Halkett, Tamalin Morton, Paul Stern and Matthew Watts, are employees of Kathmandu Pty Limited (Australian domiciled).

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

For the year ended 31 July 2013 the Group's financial performance targets were not met and thus the annual short term cash and equity incentives were not paid. A smaller discretionary cash bonus was paid to key and senior management personnel in recognition of the EBITDA outcome for the year being very close to the financial performance target once the adverse impact of non-controllable exchange rate AUD to NZD translation was adjusted for.

## COST OF CHIEF EXECUTIVE OFFICER'S CHANGE OF TAX RESIDENCY

In the second half of FY2013 the Board reviewed the appropriate primary workplace of the Chief Executive Officer, and in conjunction with its taxation advisors also assessed his associated current and historical residency for taxation purposes. As Peter Halkett has been required to operate primarily out of our Melbourne office in the period following the Christchurch earthquake in February 2011, it has been determined that since May 2011 he has been primarily tax resident in Australia. The Board and Chief Executive Officer have negotiated a sharing of the expenses including personal income tax and other associated deductions for the period from May 2011 to July 2013 arising from this required change of taxation residency. This expense is reported in his remuneration in note 9c of the financial statements. The Board and the Chief Executive Officer have also entered into a new employment agreement recognising this new residency circumstance that is effective from FY2014 onwards. The Chief Executive Officer's new remuneration under this agreement is detailed in the Notice of Annual General Meeting for 2013.

## 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.

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). 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.

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.

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
<b>Executive Directors</b>						
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	-
<b>Other Key Management Personnel</b>						
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	-
<b>Total</b>		<b>956,402</b>			<b>442,850</b>	<b>-</b>

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.

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.

For Executives (including Executive Directors) granted rights in 2010, 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. Rights were offered in 2010 to all Executives domiciled in Australia and New Zealand. In 2011 and 2012 rights under this long term performance measurement structure were offered only to the Executive Directors.

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.

2013	Grant date	Rights granted during the year	Date exercisable	Expiry date	Total fair value of performance rights at grant date \$
<b>Executive Directors</b>					
Peter Halkett	11 Dec 2012	54,688	1 Dec 2014	1 Dec 2016	82,087
Peter Halkett	11 Dec 2012	54,688	1 Dec 2015	1 Dec 2016	72,188
Peter Halkett	11 Dec 2012	54,688	1 Dec 2016	1 Dec 2016	69,727
Mark Todd	11 Dec 2012	32,315	1 Dec 2014	1 Dec 2016	48,506
Mark Todd	11 Dec 2012	32,315	1 Dec 2015	1 Dec 2016	42,657
Mark Todd	11 Dec 2012	32,315	1 Dec 2016	1 Dec 2016	41,203
<b>Total</b>		<b>261,009</b>			<b>356,368</b>
2012	Grant date	Rights granted during the year	Date exercisable	Expiry date	Total fair value of performance rights at grant date \$
<b>Executive Directors</b>					
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
<b>Total</b>		<b>221,920</b>			<b>400,566</b>



Shares Issued to Directors and Other Key Management Personnel on Exercise of Options or Performance Rights:

2013	Type	Date granted	Date Exercised	Number of shares Issued	Exercise \$
<b>Executive Directors</b>					
Peter Halkett	Rights	29 Nov 2010	18 Dec 2012	25,686	-
Mark Todd	Rights	29 Nov 2010	18 Dec 2012	9,062	-
<b>Other Key Management Personnel</b>					
Michelle Adams	Rights	29 Nov 2010	18 Dec 2012	2,667	-
Tamalin Morton	Rights	29 Nov 2010	18 Dec 2012	3,810	-
Paul Stern	Rights	29 Nov 2010	18 Dec 2012	3,810	-
Caleb Nicolson	Rights	29 Nov 2010	18 Dec 2012	2,589	-
Grant Taylor	Rights	29 Nov 2010	18 Dec 2012	2,330	-
<b>Total</b>				<b>49,954</b>	-

No shares were issued to Executive Directors or Other Key Management Personnel on exercise of options or Performance Rights during FY2012.

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, PERFORMANCE RIGHTS VESTING**

For each grant of performance rights included in the table below, the percentage of the grant that vested, in the financial period, and the percentage that was forfeited because the performance criteria were not achieved or the person did not meet the service criteria is as listed. The performance rights vest over several years provided the vesting conditions are met. No performance rights will vest if the conditions are not satisfied, hence the minimum value of each performance right yet to vest is \$Nil. The maximum value of performance rights yet to vest has been determined as the total number of performance rights still to vest multiplied by the fair value of each performance right at grant date.

2013	Grant date	Vested %	Forfeited %	Financial periods In which rights may vest	Maximum total number of rights yet to vest	Maximum total value of grants yet to vest
<b>Executive Directors</b>						
Peter Halkett	FY2013	0.0%	0.0%	FY2017	54,687	69,726
Peter Halkett	FY2013	0.0%	0.0%	FY2016	54,688	72,188
Peter Halkett	FY2013	0.0%	0.0%	FY2015	54,688	82,087
Peter Halkett	FY2012	0.0%	0.0%	FY2016	46,499	81,140
Peter Halkett	FY2012	0.0%	0.0%	FY2015	46,498	84,161
Peter Halkett	FY2012	0.0%	0.0%	FY2014	46,498	86,486
Peter Halkett	FY2011	0.0%	0.0%	FY2015	59,048	63,181
Peter Halkett	FY2011	0.0%	0.0%	FY2014	59,048	66,429
Peter Halkett	FY2011	43.5%	56.5%	FY2013	-	-
Mark Todd	FY2013	0.0%	0.0%	FY2017	32,316	41,203
Mark Todd	FY2013	0.0%	0.0%	FY2016	32,315	42,656
Mark Todd	FY2013	0.0%	0.0%	FY2015	32,315	48,505
Mark Todd	FY2012	0.0%	0.0%	FY2016	27,476	47,945
Mark Todd	FY2012	0.0%	0.0%	FY2015	27,476	49,731
Mark Todd	FY2012	0.0%	0.0%	FY2014	27,476	51,105
Mark Todd	FY2011	0.0%	0.0%	FY2015	20,833	22,291
Mark Todd	FY2011	0.0%	0.0%	FY2014	20,833	23,437
Mark Todd	FY2011	43.5%	56.5%	FY2013	-	-
<b>Other Key Management Personnel</b>						
Michelle Adams	FY2011	0.0%	0.0%	FY2015	6,131	6,560
Michelle Adams	FY2011	0.0%	0.0%	FY2014	6,131	6,897
Michelle Adams	FY2011	43.5%	56.5%	FY2013	-	-
Tamalin Morton	FY2011	0.0%	0.0%	FY2015	8,759	9,372
Tamalin Morton	FY2011	0.0%	0.0%	FY2014	8,759	9,854
Tamalin Morton	FY2011	43.5%	56.5%	FY2013	-	-
Paul Stern	FY2011	0.0%	0.0%	FY2015	8,759	9,372
Paul Stern	FY2011	0.0%	0.0%	FY2014	8,759	9,854
Paul Stern	FY2011	43.5%	56.5%	FY2013	-	-
Caleb Nicolson	FY2011	0.0%	0.0%	FY2015	5,952	6,369
Caleb Nicolson	FY2011	0.0%	0.0%	FY2014	5,952	6,696
Caleb Nicolson	FY2011	43.5%	56.5%	FY2013	-	-
Grant Taylor	FY2011	0.0%	0.0%	FY2015	5,357	5,732
Grant Taylor	FY2011	0.0%	0.0%	FY2014	5,357	6,027
Grant Taylor	FY2011	43.5%	56.5%	FY2013	-	-

## 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
FY2013	\$44.2m	26.6%	22.1	1.3x	\$1.59	\$2.68	68.6%	\$0.12

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.

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



**John Harvey**  
Chairman



**Peter Halkett**  
Managing Director and  
Chief Executive Officer

# 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 the 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](http://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 John Harvey. 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 of Directors" 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](http://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 John Harvey, John Holland, Sandra McPhee and Christine Cross.

### 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, other than Christine Cross are members of this committee. John Holland 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 risk 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

Our employees are a vital resource and play a key role in the success of the company. The skills and expertise of Kathmandu's employees drive innovation throughout the business.

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 company, without any form of discrimination. 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 Website.

We consider our current level of employee gender diversity to be effective; however 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.

### 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 2013 was as follows:

- ▶ Board: 33% being 2 female of 6 Directors
- ▶ Executive Management: Total 9  
= 7 males (78%), 2 females (22%)
- ▶ Senior Management (Wider Leadership Team):  
Total 43 = 25 Male (58%), 18 Female (42%)
- ▶ Total Employees New Zealand: Total 714  
= 266 Male (37%) and 448 Female (63%)
- ▶ Total Employees Australia: Total 1159  
= 551 Male (47.5%) and 608 Female (52.5%)
- ▶ Total Employees United Kingdom: Total 47  
= 30 Male (64%) and 17 Female (36%)
- ▶ Total Kathmandu Group: Total 1920  
= 847 Males (44%) and 1073 Females (56%)

Kathmandu considers our current employee gender diversity as a strength and we will continue to support strategies and initiatives that address any significant changes in diversity ratios through employee turnover. Kathmandu is also proud of its ethnic diversity which reflects the diversity of its customers; business partners and community. Return to work and flexible working arrangements which facilitate gender diversity will be expanded to provide further provision to the retention of our team.

A study of employee pay parity was conducted and audited as part of the company 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 company.

### 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](http://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 ASX and NZX.



# financial statements

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# directors' approval of financial statements

FOR THE YEAR ENDED 31 JULY 2013

## Authorisation for Issue


The Board of Directors authorised the issue of these Financial Statements on 24 September 2013.

## Approval by Directors

The Directors are pleased to present the Financial Statements of Kathmandu Holdings Limited for the year ended 31 July 2013 on pages 31 to 72.

Director  \_\_\_\_\_

Date: 24 September 2013 \_\_\_\_\_

Director  \_\_\_\_\_

Date: 24 September 2013 \_\_\_\_\_

For and on behalf of the Board of Directors



# statements of comprehensive income

FOR THE YEAR ENDED 31 JULY 2013

	Note	GROUP		PARENT	
		2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
Sales		383,983	347,104	-	-
Cost of sales		(141,958)	(127,559)	-	-
Gross profit		242,025	219,545)	-	-
Other income		864	48	20,133	20,013
Selling expenses	4	(121,800)	(113,774)	-	-
Administration and general expenses	4	(57,700)	(48,854)	(1,941)	(1,794)
		63,389	56,965	18,192	18,219
Finance income		187	144	-	-
Finance expenses		(4,594)	(5,983)	(17)	(92)
Finance costs - net	4	(4,407)	(5,839)	(17)	(92)
<b>Profit before income tax</b>		58,982	51,126	18,175	18,127
Income tax (expense)/benefit	5	(14,808)	(16,274)	(45)	154
<b>Profit after income tax</b>		44,174	34,852	18,130	18,281
<b>Comprehensive Income that will be recycled to the Income Statement:</b>					
Movement in cash flow hedge reserve	20	8,376	5,746	-	-
Movement in foreign currency translation reserve	20	(18,186)	3,739	-	-
<b>Other comprehensive income for the year, net of tax</b>		(9,810)	9,485	-	-
<b>Total comprehensive income for the year attributable to shareholders</b>		34,364	44,337	18,130	18,281
<b>Basic earnings per share</b>	28	22.1cps	17.4cps		
<b>Diluted earnings per share</b>	28	21.9cps	17.2cps		
<b>Weighted average basic ordinary shares outstanding ('000)</b>	28	200,197	200,000		
<b>Weighted average diluted ordinary shares outstanding ('000)</b>	28	202,121	203,121		

# statements of changes in equity

FOR THE YEAR ENDED 31 JULY 2013

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
<b>Balance as at 31 July 2011</b>	<b>197,049</b>	<b>(9,055)</b>	<b>3,889</b>	<b>625</b>	<b>62,418</b>	<b>254,926</b>
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	-
Share based payment expense	-	-	-	371	-	371
<b>Balance as at 31 July 2012</b>	<b>197,298</b>	<b>(3,309)</b>	<b>7,628</b>	<b>739</b>	<b>77,278</b>	<b>279,634</b>
Total comprehensive income	-	8,376	(18,186)	-	44,174	34,364
Dividends paid	-	-	-	-	(20,018)	(20,018)
Issue of share capital	72	-	-	(72)	-	-
Share Options / Performance Rights lapsed	-	-	-	(53)	53	-
Share based payment expense	-	-	-	209	-	209
<b>Balance as at 31 July 2013</b>	<b>197,370</b>	<b>5,067</b>	<b>(10,558)</b>	<b>823</b>	<b>101,487</b>	<b>294,189</b>

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
<b>Balance as at 31 July 2011</b>	<b>422,137</b>	-	-	<b>625</b>	<b>(13,943)</b>	<b>408,819</b>
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	-
Share based payment expense	-	-	-	371	-	371
<b>Balance as at 31 July 2012</b>	<b>422,386</b>	-	-	<b>739</b>	<b>(15,654)</b>	<b>407,471</b>
Total comprehensive income	-	-	-	-	18,130	18,130
Dividends paid	-	-	-	-	(20,018)	(20,018)
Issue of share capital	72	-	-	(72)	-	-
Share Options / Performance Rights lapsed	-	-	-	(53)	53	-
Share based payment expense	-	-	-	209	-	209
<b>Balance as at 31 July 2013</b>	<b>422,458</b>	-	-	<b>823</b>	<b>(17,489)</b>	<b>405,792</b>

# balance sheets

AS AT 31 JULY 2013

	Note	GROUP		PARENT	
		2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	7	2,345	1,811	5	26
Trade and other receivables	8	3,668	3,503	256	261
Related party receivable	9	-	-	81,944	82,885
Derivative financial instruments	10	7,887	-	-	-
Inventories	11	80,031	73,295	-	-
Current tax assets		-	-	2,589	3,113
<b>Total current assets</b>		<b>93,931</b>	<b>78,609</b>	<b>84,794</b>	<b>86,285</b>
<b>Non-current assets</b>					
Property, plant and equipment	12	43,379	41,911	-	-
Intangible assets	13	234,863	249,092	4	-
Derivative financial instruments	10	27	-	-	-
Investment in subsidiaries	14	-	-	321,234	321,234
Deferred tax	15	4,017	3,218	17	-
<b>Total non-current assets</b>		<b>282,286</b>	<b>294,221</b>	<b>321,255</b>	<b>321,234</b>
<b>Total assets</b>		<b>376,217</b>	<b>372,830</b>	<b>406,049</b>	<b>407,519</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	16	33,032	29,304	257	48
Derivative financial instruments	10	58	3,128	-	-
Interest bearing liabilities	17	223	-	-	-
Current tax liabilities		5,507	6,276	-	-
<b>Total current liabilities</b>		<b>38,820</b>	<b>38,708</b>	<b>257</b>	<b>48</b>
<b>Non-current liabilities</b>					
Derivative financial instruments	10	628	751	-	-
Interest bearing liabilities	17	42,580	53,737	-	-
<b>Total non-current liabilities</b>		<b>43,208</b>	<b>54,488</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>82,028</b>	<b>93,196</b>	<b>257</b>	<b>48</b>
<b>Net assets</b>		<b>294,189</b>	<b>279,634</b>	<b>405,792</b>	<b>407,471</b>
<b>EQUITY</b>					
Contributed equity - ordinary shares	18	197,370	197,298	422,458	422,386
Reserves	20	(4,668)	5,058	823	739
Retained earnings	20	101,487	77,278	(17,489)	(15,654)
<b>Total equity</b>		<b>294,189</b>	<b>279,634</b>	<b>405,792</b>	<b>407,471</b>

# statements of cash flows

FOR THE YEAR ENDED 31 JULY 2013

	Note	GROUP		PARENT	
		2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
<b>Cash flows from operating activities</b>					
<b>Cash was provided from:</b>					
Receipts from customers		384,515	345,974	-	-
Dividends received		-	-	20,018	20,000
Income tax received		-	-	462	257
Interest received		50	131	-	-
		384,565	346,105	20,480	20,257
<b>Cash was applied to:</b>					
Payments to suppliers and employees		315,892	291,626	1,415	1,567
Income tax paid		18,411	16,002	-	-
Interest paid		4,586	5,949	-	-
		338,889	313,577	1,415	1,567
<b>Net cash inflow from operating activities</b>	<b>6</b>	45,676	32,528	19,065	18,690
<b>Cash flows from investing activities</b>					
<b>Cash was provided from:</b>					
Proceeds from sale of property, plant and equipment		10	32	-	-
		10	32	-	-
<b>Cash was applied to:</b>					
Purchase of property, plant and equipment	<b>12</b>	14,819	17,868	-	-
Purchase of intangibles	<b>13</b>	2,600	3,985	7	-
		17,419	21,853	7	-
<b>Net cash (outflow) from investing activities</b>		(17,409)	(21,821)	(7)	-
<b>Cash flows from financing activities</b>					
<b>Cash was provided from:</b>					
Proceeds of loan advances		96,225	206,226	941	1,331
		96,225	206,226	941	1,331
<b>Cash was applied to:</b>					
Dividends paid		20,018	20,000	20,018	20,000
Repayment of loan advances		103,758	199,040	-	-
		123,776	219,040	20,018	20,000
<b>Net cash inflow / (outflow) from financing activities</b>		(27,551)	(12,814)	(19,077)	(18,669)
<b>Net increase / (decrease) in cash held</b>		716	(2,107)	(19)	21
Opening cash and cash equivalents		1,811	3,574	26	5
Effect of foreign exchange rates		(182)	344	(2)	-
<b>Closing Cash</b>	<b>7</b>	2,345	1,811	5	26

# 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.

The Company is listed on the NZX and ASX.

These audited consolidated financial statements have been approved for issue by the Board of Directors on 24 September 2013.

## 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 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 are 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. Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Group commits to purchase or sell the asset. 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.

## (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:

<b>Leasehold Improvements</b>	8	–	50 %
<b>Office, Plant and Equipment</b>	8	–	80 %
<b>Furniture and Fittings</b>	6	–	60 %
<b>Computer Equipment</b>	6	–	67%
<b>Motor Vehicles</b>	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.

## (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:

- a. Cash comprises: cash at bank, cash on hand and overdraft balances;
- b. 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;
- c. Financing activities are those activities which result in changes in the size and composition of the capital structure of the Company;
- d. 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 1 Amendments Presentation of Items of Other Comprehensive Income (effective 1 July 2012):**

The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period.

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 standards before their operative date, which means that all of the above new standards would be first applied in the annual reporting period ending 31 July 2014, with the exception of NZ IFRS 9 that will be applied in the annual period ending 31 July 2016.

## 4 INCOME AND EXPENSES

	GROUP		PARENT	
	2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
<b>Profit / (loss) before income tax includes the following specific (income) and expenses:</b>				
Income				
Dividends received	-	-	(20,018)	(20,000)
<b>EXPENSES</b>				
<b>Depreciation</b>				
- Leasehold improvements	5,225	4,986	-	-
- Office, plant and equipment	537	485	-	-
- Furniture and fittings	2,544	2,020	-	-
- Computer equipment	496	421	-	-
- Motor vehicles	12	20	-	-
Total depreciation	8,814	7,932	-	-
<b>Amortisation</b>				
- Software	1,795	1,599	3	-
Total amortisation	1,795	1,599	3	-
(Gain) / Loss on sale of property, plant and equipment	955	891	-	-
Rental and operating lease expenses	43,801	39,595	-	-
Directors' fees	717	714	717	714
Employee entitlements:				
- Wages, salaries and other short term benefits	68,719	61,795	-	-
- Employee share based remuneration	209	371	209	371
<b>Finance Costs</b>				
Interest income	(50)	(131)	-	-
Interest expense	3,868	4,274	-	-
Other finance costs	607	1,587	-	-
Net exchange (gain) / loss on foreign currency borrowings	(18)	109	17	92
	4,407	5,839	17	92

Remuneration of auditors is detailed in note 22.

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

## 5 INCOME TAX EXPENSE

	GROUP		PARENT	
	2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
<b>Income statement</b>				
Current income tax charge	18,826	17,053	62	(154)
Deferred income tax charge (refer note 15)	(4,018)	(779)	(17)	-
Income tax charge / (credit) reported in income statement	14,808	16,274	45	(154)
<b>Reconciliation of effective tax charge</b>				
Profit before income tax	58,982	51,126	18,175	18,127
Income tax calculated at 28% (2012: 28%)	16,515	14,315	5,089	5,075
Adjustments to taxation:				
Adjustments due to different rate in different jurisdictions	530	654	-	-
Non-taxable income	-	-	(5,606)	(5,600)
Expenses not deductible for tax purposes	630	946	69	31
Effect of change in corporate tax rate	-	-	-	-
Utilisation of tax losses by group companies	-	-	-	-
Tax expense transferred to foreign currency translation reserve	(2,929)	464	-	-
Adjustments in respect of prior years	62	(105)	493	340
<b>Income tax charge / (credit) reported in income statement</b>	14,808	16,274	45	(154)

The tax charge / (credit) relating to components of other comprehensive income is as follows:

	Note	GROUP		PARENT	
		2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
Movement in cash flow hedge reserve before tax		11,203	6,818	-	-
Tax credit / (charge) relating to cash flow hedge reserve		(2,827)	(1,072)	-	-
Movement in cash flow hedge reserve after tax		8,376	5,746	-	-
Foreign currency translation reserve before tax		(20,723)	4,159	-	-
Tax credit / (charge) relating to foreign currency translation reserve		2,537	(420)	-	-
Movement in foreign currency translation reserve after tax		(18,186)	3,739	-	-
Total other comprehensive income before tax		(9,520)	10,977	-	-
Total tax credit / (charge) on other comprehensive income		(290)	(1,492)	-	-
<b>Total other comprehensive income after tax</b>		<b>(9,810)</b>	<b>9,485</b>	-	-
Current tax		2,929	(464)	-	-
Deferred tax	15	(3,219)	(1,028)	-	-
<b>Total tax credit / (charge) on other comprehensive income</b>		<b>(290)</b>	<b>(1,492)</b>	-	-

**Unrecognised tax losses**

The group has estimated tax losses to carry forward from Kathmandu (U.K.) Limited of £8,186,293 (NZ\$15,387,769) (2012: £7,290,184 (NZ\$14,350,756)) which can be carried forward to be offset against future profits generated within the UK.

IMPUTATION CREDITS	GROUP		PARENT	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Imputation credits available for use in subsequent reporting periods based on a tax rate of 28%	4,527	3,554	(1)	(1)

The above amounts represent the balance of the imputation account as at the end of July 2013, 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 2013 is A\$5,794,857 (2012: A\$3,369,445).

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

	GROUP		PARENT	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Profit after taxation	44,174	34,852	18,130	18,281
Movement in working capital:				
(Increase) / decrease in trade and other receivables	(332)	(1,130)	5	(69)
(Increase) / decrease in inventories	(11,915)	(18,473)	-	-
Increase / (decrease) in trade and other payables	6,348	7,887	210	6
Increase / (decrease) in tax liability	(243)	(558)	525	101
	(6,142)	(12,274)	740	38
<i>Add non cash items:</i>				
Depreciation	8,814	7,932	-	-
Amortisation of intangibles	1,795	1,599	3	-
Revaluation of derivative financial instruments	(3,053)	(1,131)	-	-
(Increase) / decrease in deferred taxation	(1,076)	288	(17)	-
Employee share based remuneration	209	371	209	371
Loss on sale of property, plant and equipment	955	891	-	-
	7,644	9,950	195	371
Cash inflow from operating activities	45,676	32,528	19,065	18,690

## 7 CASH AND CASH EQUIVALENTS

	GROUP		PARENT	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Cash on hand	165	167	-	-
Cash at bank	2,166	1,455	5	26
Short term deposits	14	189	-	-
	2,345	1,811	5	26

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

NZD	527	487	5	26
AUD	1,464	211	-	-
GBP	270	927	-	-
USD	84	177	-	-
EUR	-	9	-	-
	2,345	1,811	5	26

## 8 TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Trade receivables	125	206	-	-
Sundry debtors and prepayments	3,543	3,297	256	261
	3,668	3,503	256	261

**Bad and doubtful trade receivables**

The Group has recognised a loss of \$0 (2012: \$0) in respect of bad and doubtful trade receivables during the year ended 31 July 2013.

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

NZD	2,076	1,565	256	261
AUD	1,019	1,241	-	-
GBP	573	697	-	-
	3,668	3,503	256	261

## 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 \$84,863 (2012: \$163,683) 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 2013, there were outstanding legal fees of \$4,989 (2012: \$20,149).

During the year, operating lease costs of \$229,282 (2012: \$223,054) 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) \$81,944,045 (2012: \$82,884,844).
- ▶ Loans to the parent from subsidiaries \$0 (2012: \$0).

### (a) Key Management Personnel

	GROUP		PARENT	
	2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
Salaries	3,124	3,193	-	-
Other short-term employee benefits	1,187	81	-	-
Employee performance rights	202	204	202	204
Employee share option plans	7	67	7	67
	4,520	3,545	209	271

Key management personnel include the following employees:

Executive Directors:

- ▶ Chief Executive Officer
- ▶ Chief Financial Officer

Other Key Management Personnel:

- ▶ GM, Product
- ▶ GM, Marketing
- ▶ GM, Business Development & Sustainability
- ▶ GM, Supply Chain
- ▶ Chief Information Officer
- ▶ GM, Retail (Australia)
- ▶ GM, Retail (New Zealand)



**(b) Non-Executive Directors**

	GROUP		PARENT	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Total directors fees	717	713	717	713

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

- ▶ James Strong (Deceased 4 March 2013)
- ▶ Sandra McPhee
- ▶ John Harvey (Acting Chairman from 4 March 2013)
- ▶ John Holland
- ▶ Christine Cross

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

2013	SHORT-TERM BENEFITS			POST-EM- PLOYMENT BENEFITS	SHARE BASED PAYMENTS			Total \$	Proportion of remuneration as performance related %
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super -annuation \$	Share options \$	Performance rights \$	Proportion of remuneration as equity related %		
Name									
<b>Non-Executive Directors</b>									
James Strong	159,136	-	-	-	-	-	0.0%	159,136	0.0%
John Harvey	191,984	-	-	-	-	-	0.0%	191,984	0.0%
John Holland	140,139	-	-	-	-	-	0.0%	140,139	0.0%
Sandra McPhee	140,139	-	-	-	-	-	0.0%	140,139	0.0%
Christine Cross	85,229	-	-	-	-	-	0.0%	85,229	0.0%
<b>Total Non-Executive Directors</b>	<b>716,627</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>	<b>716,627</b>	<b>0.0%</b>
<b>Executive Directors</b>									
Peter Halkett <sup>1</sup>	831,975	100,000	680,998	45,738	3,689	117,508	6.8%	1,779,908	5.6%
Mark Todd	483,171	80,000	3,551	11,261	1,057	58,977	9.4%	638,017	12.5%
<b>Total Executive Directors</b>	<b>1,315,146</b>	<b>180,000</b>	<b>684,549</b>	<b>56,999</b>	<b>4,746</b>	<b>176,485</b>	<b>7.5%</b>	<b>2,417,925</b>	<b>7.4%</b>
<b>Total Other Key Management Personnel</b>									
	1,686,329	304,502	18,323	65,475	1,769	26,006	1.3%	2,102,204	14.5%
<b>Total</b>	<b>3,718,102</b>	<b>484,502</b>	<b>702,872</b>	<b>122,474</b>	<b>6,515</b>	<b>202,491</b>	<b>4.0%</b>	<b>5,236,956</b>	<b>9.3%</b>

<sup>1</sup> This includes amounts paid by the Group in settling the obligations arising from a change in the primary tax residency (from New Zealand to Australia) for the period from May 2011 to July 2013. The amounts involved are primarily non-monetary benefits, being net amounts paid or payable directly to the relevant taxation authorities as a result of the prior taxation residency being corrected.

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

2012	SHORT-TERM BENEFITS			POST-EM- PLOYMENT BENEFITS	SHARE BASED PAYMENTS			Total	Proportion of remuneration as performance related
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super - annuation \$	Share options \$	Performance rights \$	Proportion of remuneration as equity related %		
Name								\$	%
<b>Non-Executive Directors</b>									
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%
<b>Total Non-Executive Directors</b>	<b>713,080</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>	<b>713,080</b>	<b>0.0%</b>
<b>Executive Directors</b>									
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%
<b>Total Executive Directors</b>	<b>1,350,734</b>	<b>-</b>	<b>62,857</b>	<b>13,465</b>	<b>50,021</b>	<b>159,292</b>	<b>12.8%</b>	<b>1,636,369</b>	<b>0.0%</b>
<b>Total Other Key Management Personnel</b>									
	1,752,924	-	18,581	75,713	16,536	44,621	3.2%	1,908,375	0.0%
<b>Total</b>	<b>3,816,738</b>	<b>-</b>	<b>81,438</b>	<b>89,178</b>	<b>66,557</b>	<b>203,913</b>	<b>6.4%</b>	<b>4,257,824</b>	<b>0.0%</b>

## 10 DERIVATIVE FINANCIAL INSTRUMENTS

	GROUP		PARENT	
	2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
<b>Asset</b>				
Interest rate swaps - cash flow hedge	27	-	-	-
Foreign exchange contracts - cash flow hedge	7,887	-	-	-
	7,914	-	-	-
Less non-current portion:				
Interest rate swaps - cash flow hedge	27	-	-	-
Current portion	7,887	-	-	-
<b>Liabilities</b>				
Interest rate swaps - cash flow hedge	686	990	-	-
Foreign exchange contracts - cash flow hedge	-	2,889	-	-
	686	3,879	-	-
Less non-current portion:				
Interest rate swaps - cash flow hedge	628	751	-	-
Current portion	58	3,128	-	-

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 \$44,971,623 (2012: \$45,940,337). The fixed interest rates range between 3.05% and 5.71% (2012: 3.99% and 5.71%).

Refer note 26 for timing of expected cash flows relating to interest rate swaps.

**(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\$90,700,000, NZ\$107,499,336 (2012: US\$76,750,000, NZ\$99,138,128).

No material hedge ineffectiveness for interest rate swaps or foreign exchange contracts exists as at balance date (2012: Nil).

## 11 INVENTORIES

	GROUP		PARENT	
	2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
Trading stock	64,597	60,391	-	-
Goods in transit	15,434	12,904	-	-
	80,031	73,295	-	-

Inventory has been reviewed for stock selling below cost and no provision (2012: \$0) has been made.

## 12 PROPERTY, PLANT AND EQUIPMENT

GROUP	Leasehold improvement	Office, plant & equipment	Furniture & fittings	Computer equipment	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year ended 31 July 2012</b>						
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
<b>As at 31 July 2012</b>						
Cost	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
<b>Year ended 31 July 2013</b>						
Opening net book value	30,346	1,449	7,325	2,732	59	41,911
Additions	5,633	1,224	7,056	906	-	14,819
Disposals	(985)	(169)	(350)	(38)	(7)	(1,549)
Depreciation charge	(5,225)	(537)	(2,544)	(496)	(12)	(8,814)
Exchange differences	(2,390)	(82)	(438)	(75)	(3)	(2,988)
Closing net book value	27,379	1,885	11,049	3,029	37	43,379
<b>As at 31 July 2013</b>						
Cost	49,298	4,868	19,279	7,279	191	80,915
Accumulated depreciation	(21,919)	(2,983)	(8,230)	(4,250)	(154)	(37,536)
Closing net book value	27,379	1,885	11,049	3,029	37	43,379

## 13 INTANGIBLE ASSETS

GROUP	Goodwill	Brand	Software	Total
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
<b>Year ended 31 July 2012</b>				
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
<b>As at 31 July 2012</b>				
Cost	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
<b>Year ended 31 July 2013</b>				
Opening net book value	75,406	170,326	3,360	249,092
Additions	-	-	2,600	2,600
Disposals	-	-	-	-
Amortisation	-	-	(1,795)	(1,795)
Exchange differences	-	(14,900)	(134)	(15,034)
Closing net book value	75,406	155,426	4,031	234,863
<b>As at 31 July 2013</b>				
Cost	76,677	155,426	9,942	242,045
Accumulated amortisation	(1,271)	-	(5,911)	(7,182)
Closing net book value	75,406	155,426	4,031	234,863

PARENT	Goodwill	Brand	Software	Total
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
<b>Year ended 31 July 2012</b>				
Opening net book value	-	-	-	-
Additions	-	-	-	-
Disposals	-	-	-	-
Amortisation	-	-	-	-
Exchange differences	-	-	-	-
Closing net book value	-	-	-	-
<b>As at 31 July 2012</b>				
Cost	-	-	-	-
Accumulated amortisation	-	-	-	-
Closing net book value	-	-	-	-
<b>Year ended 31 July 2013</b>				
Opening net book value	-	-	-	-
Additions	-	-	7	7
Disposals	-	-	-	-
Amortisation	-	-	(3)	(3)
Exchange differences	-	-	-	-
Closing net book value	-	-	4	4
<b>As at 31 July 2013</b>				
Cost	-	-	7	7
Accumulated amortisation	-	-	(3)	(3)
Closing net book value	-	-	4	4

### Impairment tests for goodwill and brand

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

GROUP	GOODWILL		BRAND	
	2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
New Zealand	28,654	28,654	51,000	51,000
Australia	46,752	46,752	104,426	119,326
	75,406	75,406	155,426	170,326

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 value in use.

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:

	2013	2012
Terminal growth rate	2.5%	2.5%
New Zealand CGU pre-tax discount rate	15.0%	15.2%
Australia CGU pre-tax discount rate	14.6%	14.9%
Consolidated pre-tax discount rate	14.8%	15.1%

The calculations confirmed that there was no impairment of goodwill and brand during the year (2012: 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.

#### 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	
	2013	2012
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 the 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	2013	2012
	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 2011	68	931	1	853	1,614	3,467
Charge / (credit) to the income statement	19	(94)	-	854	-	779
Charge / (credit) to other comprehensive income	-	-	-	44	(1,072)	(1,028)
As at 31 July 2012	87	837	1	1,751	542	3,218
Charge / (credit) to the income statement	125	285	-	3,608	-	4,018
Charge / (credit) to other comprehensive income	-	-	-	(392)	(2,827)	(3,219)
As at 31 July 2013	212	1,122	1	4,967	(2,285)	4,017

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 2011	-	-	-	-	-	-
Charge / (credit) to the income statement	-	-	-	-	-	-
As at 31 July 2012	-	-	-	-	-	-
Charge / (credit) to the income statement	-	-	-	17	-	17
As at 31 July 2013	-	-	-	17	-	17

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	
	2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
Deferred taxation assets:				
- Deferred tax asset to be recovered after more than 12 months	1,705	1,461	-	-
- Deferred tax asset to be recovered within 12 months	2,803	1,779	17	-
Deferred taxation liabilities:				
- Deferred tax liability to be recovered after more than 12 months	(342)	(1)	-	-
- Deferred tax liability to be recovered within 12 months	(149)	(21)	-	-
	4,017	3,218	17	-



## Movements

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

	GROUP		PARENT	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Opening balance	3,218	3,467	-	-
Income statement charge	4,018	779	17	-
Tax charged directly to equity	(3,219)	(1,028)	-	-
Closing balance	4,017	3,218	17	-

## 16 TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Trade payables	7,930	10,084	43	10
Employee entitlements	6,989	3,868	-	-
Sundry creditors and accruals	18,113	15,352	214	38
	33,032	29,304	257	48

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

NZD	7,534	5,943	169	53
AUD	22,301	20,064	88	(5)
GBP	906	1,768	-	-
USD	2,291	1,529	-	-
	33,032	29,304	257	48

## 17 INTEREST BEARING LIABILITIES

	GROUP		PARENT	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Current portion	223	-	-	-
Non-current portion	42,580	53,737	-	-
Total term loans	42,803	53,737	-	-

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 2015. Interest is payable based on the BKBM rate (NZD borrowings), the BBSY rate (AUD 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 2013.

The current interest rates, prior to hedging, on the term loans ranged between 3.53% - 3.73% (2012: 3.59% - 4.47%).

During the year the Group entered into a 36 month loan to finance software licenses. For accounting purposes, an interest rate has been imputed on the loan. The imputed rate is within the range shown above for current interest rates on external borrowings. The loan balance at 31 July 2013 is \$493,894. The loan is not repayable on demand.

	GROUP		PARENT	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
The principal of interest bearing liabilities is:				
Payable within 1 year	223	-	-	-
Payable 1 to 2 years	-	-	-	-
Payable 2 to 3 years	42,580	53,737	-	-
Payable 3 to 4 years	-	-	-	-
	42,803	53,737	-	-

## 18 CONTRIBUTED EQUITY - ORDINARY SHARES

	GROUP		PARENT	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Ordinary shares fully paid (\$)	197,370	197,298	422,458	422,386
Balance at beginning of year	197,298	197,049	422,386	422,137
Issue of shares under Executive and Senior Management Long Term Incentive Plan	72	249	72	249
Balance at end of year	197,370	197,298	422,458	422,386

NUMBER OF AUTHORISED SHARES	GROUP		PARENT	
	2013	2012	2013	2012
	'000	'000	'000	'000
Ordinary shares on hand at beginning of the year	200,166	200,000	200,166	200,000
Shares issued under Executive and Senior Management Long Term Incentive Plan	50	166	50	166
Ordinary shares on hand at end of the year	200,216	200,166	200,216	200,166

### Ordinary shares

As at 31 July 2013 there were 200,215,894 ordinary issued shares in Kathmandu Holdings Limited and these are classified as equity. 49,954 shares were issued under the "Executive and Senior Management Long Term Incentive Plan 24 November 2010" during the year ending 31 July 2013 (2012:165,940).

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 (2012: nil) to Executive Directors and senior executives. The fair value

of options issued during the financial year is \$0 (2012: \$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:

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

A 50% Net Profit after Tax dividend pay-out 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 \$6,515 (2012: \$21,911) which represents this amortisation.

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

	2013		2012	
	Average exercise price \$ per share	Options '000	Average exercise price \$ per share	Options '000
Balance at beginning of year	2.1333	956	2.1333	1,074
Issued	-	-	-	-
Forfeited	-	-	2.1333	(118)
Balance at end of year	2.1333	956	2.1333	956

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	2013 '000	2012 '000
October 2010	October 2013	\$2.1333	319	319
October 2011	October 2013	\$2.1333	319	319
October 2012	October 2013	\$2.1333	318	318
			956	956

### 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
11 Dec 2012	-	365,412	-	(104,403)	261,009
30 Nov 2011	221,920	-	-	-	221,920
29 Nov 2010	344,517	-	(49,954)	(64,885)	229,678
	566,437	365,412	(49,954)	(169,288)	712,607

\* From 2011 Performance Rights granted to Executive Directors only.

The performance rights granted are divided between Long Term Incentive (261,009) and Short Term Incentive (104,403) components.

Short term incentive performance rights vest:

- upon the Company achieving non-market performance hurdles; and
- the employee remaining in employment with the Company until the vesting date.

The performance period and vesting dates are summarised below:

	2013	2012
Grant Date	11 Dec 2012	30 Nov 2011
Performance period (year ending)	31 Jul 2013	31 Jul 2012
Vesting Date	31 Jul 2015	31 Jul 2014

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\$1.69 per right (2012: \$2.23).

The non-market performance hurdles set for the year ending 31 July 2013 were not met and accordingly:

- no expense has been recorded in the income statement; and
- all of these rights have lapsed

The Long Term Incentive 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:

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

The TSR performance is calculated for the following performance periods:

<b>Tranche</b>	<b>2013</b>	<b>2012</b>
Tranche 1	24 months to 1 December 2014	24 months to 1 December 2013
Tranche 2	24 months to 1 December 2015	24 months to 1 December 2014
Tranche 3	24 months to 1 December 2016	24 months to 1 December 2015

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:

	<b>2013</b>	<b>2012</b>
Fair value of TSR rights	\$158,346	\$165,331
Current price at issue date	\$1.95	\$2.48
Risk free interest rate	2.92%	3.54%
Expected life (years)	2-4	2-4
Expected share volatility	40%	36%

The estimated fair value for each tranche of rights issued is amortised over the vesting period from the grant date. The Company has recognised a compensatory expense in the income statement of \$36,925 (2012: \$54,101) 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:

<b>Tranche</b>	<b>2013 Performance Period</b>	<b>2012 Performance Period</b>
Tranche 1	FY14 EPS relative to FY12 EPS	FY13 EPS relative to FY11 EPS
Tranche 2	FY15 EPS relative to FY12 EPS	FY14 EPS relative to FY11 EPS
Tranche 3	FY16 EPS relative to FY12 EPS	FY15 EPS relative to FY11 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 \$47,907 (2012: \$78,923) 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
04 Dec 2012	-	121,156	-	(121,156)	-
30 Nov 2011	-	-	-	-	-
	-	121,156	-	(121,156)	-

Short Term Incentive performance rights vest:

- upon the Company achieving specified non-market performance hurdles; and
- the employee remaining in employment with the Company until the vesting date.

The performance periods and vesting dates are summarised below:

	2013	2012
Grant Date	04 Dec 2012	30 Nov 2011
Performance period (year ending)	31 Jul 2013	31 Jul 2012
Vesting Date	31 Jul 2015	31 Jul 2014

The fair value of the rights were 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\$1.58 per right (2012: \$2.23).

The non-market performance hurdles set for the year ending 31 July 2013 were not met and accordingly:

- no expense has been recorded in the income statement.
- all of these rights have lapsed

## 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
04 Dec 2012	-	259,133	-	(259,133)	-
30 Nov 2011	-	-	-	-	-
	-	259,133	-	(259,133)	-

Short Term Incentive performance rights vest:

- upon the Company achieving specified non-market performance hurdles; and
- the employee remaining in employment with the Company until the vesting date.

The performance periods and vesting dates are summarised below:

	2013	2012
Grant Date	04 Dec 2012	30 Nov 2011
Performance period (year ending)	31 Jul 2013	31 Jul 2012
Vesting Date	31 Jul 2014	31 Jul 2013

The fair value of the rights were 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\$1.70 per right (2012: \$2.35).

The non-market performance hurdles set for the year ending 31 July 2013 were not met and accordingly:

- no expense has been recorded in the income statement; and
- all of these rights have lapsed

## Expenses arising from share based payments:

	GROUP		PARENT	
	2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
Share Option Plan 2009	7	22	7	22
Executive Directors and Key Management Personnel	202	200	202	200
Senior Management	-	149	-	149
	209	371	209	371

## 20 RESERVES AND RETAINED EARNINGS

(A) RESERVES	Note	GROUP		PARENT	
		2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
<b>(i) Cash flow hedging reserve</b>					
Opening balance		(3,309)	(9,055)	-	-
Revaluation - gross		11,230	6,967	-	-
Deferred taxation on revaluation	5	(2,827)	(1,072)	-	-
Transfer to net profit - gross		(27)	(149)	-	-
Closing balance		5,067	(3,309)	-	-
<b>(ii) Foreign currency translation reserve</b>					
Opening balance		7,628	3,889	-	-
Currency translation differences - Gross		(20,723)	4,159	-	-
Currency translation differences - Taxation		2,537	(420)	-	-
Closing balance	5	(10,558)	7,628	-	-
<b>(iii) Share based payments reserve</b>					
Opening balance		739	625	739	625
Current year amortisation		209	371	209	371
Transfer to Share Capital on vesting of shares to Employees		(72)	(249)	(72)	(249)
Share Options / Performance Rights lapsed		(53)	(8)	(53)	(8)
Closing balance		823	739	823	739
<b>Total Reserves</b>		<b>(4,668)</b>	<b>5,058</b>	<b>823</b>	<b>739</b>

**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 reserve**

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	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Opening retained earnings	77,278	62,418	(15,654)	(13,943)
Profit for the year	44,174	34,852	18,130	18,281
Share Options/Performance Rights lapsed	53	8	53	8
Less dividends paid	(20,018)	(20,000)	(20,018)	(20,000)
Balance at 31 July	101,487	77,278	(17,489)	(15,654)

## 21 DIVIDENDS

	GROUP		PARENT	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Prior year final dividend paid	14,012	14,000	14,012	14,000
Current year interim dividend paid	6,006	6,000	6,006	6,000
Dividends paid (\$0.10 per share (2012; \$0.10))	20,018	20,000	20,018	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 - Pricewaterhouse Coopers	GROUP		PARENT	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Statutory audit	121	122	78	59
Half year review	28	28	28	28
Other assurance services	19	5	-	-
Total remuneration for audit services	168	155	106	87

## 23 CONTINGENT LIABILITIES

	GROUP		PARENT	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Liabilities outstanding under letters of credit	2,161	1,542	-	-
Rent guarantees	9,131	9,848	-	-
Financial guarantees	1,813	1,713	-	-

## 24 CONTINGENT ASSETS

There are no contingent assets in 2013 (2012: nil).

## 25 COMMITMENTS

### (a) Capital commitments

Capital commitments contracted for at balance date are:

	GROUP		PARENT	
	2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
Property, plant and equipment	479	1,680	-	-
Intangible assets	720	1,183	-	-
	1,199	2,863	-	-

### (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	
	2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
Due within 1 year	43,618	39,193	-	-
Due within 1-2 years	38,618	34,446	-	-
Due within 2-5 years	70,916	73,580	-	-
Due after 5 years	16,159	20,048	-	-
	169,311	167,267	-	-

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	
	2013 NZ\$'000	2012 NZ\$'000	2013 NZ\$'000	2012 NZ\$'000
Total secured loans	42,309	53,737	-	-
less Principal covered by interest rate swaps	(44,972)	(45,940)	-	-
Net Principal subject to floating interest rates*1	(2,663)	7,797	-	-

1. Debt levels fluctuate throughout the year and as at 31 July, are typically at a cyclical low.

Interest rates on loans currently range from 3.53% – 3.73% (2012: 3.59% – 4.47%). 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 \$659,211 (2012: \$986,157).

### 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% (2012: -10% / +10%) 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% (2012: -10% / +10%) is reasonable given the exchange rate volatility observed on a historic basis for the preceding five year period and market expectation for potential future movements.

A sensitivity of 1% (2012: 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. The impact on equity is presented exclusive of the impact on retained earnings.

GROUP	Carrying amount \$'000	INTEREST RATE RISK				FOREIGN EXCHANGE RISK			
		-1%	+1%	-10%	+10%				
<b>31 July 2013</b>		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Derivative financial instruments (asset) / liability	(7,228)	(449)	735	449	(761)	-	(12,036)	-	9,847
<b>Financial assets</b>									
Cash	2,345	(17)	-	17	-	145	-	(119)	-
Trade receivables and sundry debtors	1,008	-	-	-	-	(17)	-	14	-
		(17)	-	17	-	128	-	(105)	-
<b>Financial liabilities</b>									
Trade payables	33,032	-	-	-	-	(2,040)	-	1,669	-
Borrowings	42,309	423	-	(423)	-	-	(2,225)	-	1,820
		423	-	(423)	-	(2,040)	(2,225)	1,669	1,820
<b>Total increase / (decrease)</b>		(43)	735	43	(761)	(1,912)	(14,261)	1,564	11,667

GROUP	Carrying amount \$'000	INTEREST RATE RISK				FOREIGN EXCHANGE RISK			
		-1%	+1%	-10%	+10%				
<b>31 July 2012</b>		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
<b>Financial assets</b>									
Cash	1,811	(13)	-	13	-	106	-	(87)	-
Trade receivables and sundry debtors	1,422	-	-	-	-	(79)	-	65	-
		(13)	-	13	-	27	-	(22)	-
<b>Financial liabilities</b>									
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
<b>Total increase / (decrease)</b>		65	209	(65)	(216)	(1,842)	(11,425)	1,507	9,348

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	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Cash and cash equivalents	2,345	1,811	5	26
Trade receivables	125	206	-	-
Sundry debtors	883	1,216	-	-
	3,353	3,233	5	26

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

There are no past due balances.

The credit quality of financial assets that are neither past due not impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

CASH AND CASH EQUIVALENTS	GROUP		PARENT	
	2013	2012	2013	2012
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Standard & Poors - AA -	2,075	884	5	26
Standard & Poors - A	270	927	-	-
Total Cash and cash equivalents	2,345	1,811	5	26
Trade receivables:				
Counterparties with external credit rating	-	-	-	-
Counterparties without external credit rating <sup>1</sup>	125	206	-	-
Total trade receivables	125	206	-	-

1. Existing customers with no defaults in the past.

**(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 \$130,533,485 / \$115,000,000 AUD (2012: \$142,671,855 / \$110,000,000 AUD) 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
<b>Group 2013</b>				
Trade and other payables	33,032	-	-	-
Guarantees	13,105	-	-	-
Borrowings	1,542	1,542	42,914	-
	47,679	1,542	42,914	-
<b>Group 2012</b>				
Trade and other payables	29,304	-	-	-
Guarantees	13,103	-	-	-
Borrowings	3,128	3,128	54,932	-
	45,535	3,128	54,932	-

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
<b>At 31 July 2013</b>			
Forward foreign exchange contracts			
-Inflow	115,386	-	-
-Outflow	(107,499)	-	-
Net Inflow / (Outflow)	7,887	-	-
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	(470)	(270)	(102)
<b>At 31 July 2012</b>			
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)

**(d) 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 IFRS7) of the fair value hierarchy as all significant inputs required to ascertain the fair value of these derivatives are observable.

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	Derivatives used for hedging	Measured at amortised cost	Total
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
<b>Group</b>				
<b>At 31 July 2013</b>				
Cash and cash equivalents	2,345	-	-	2,345
Trade and other receivables	1,008	-	-	1,008
Derivative financial instrument assets	-	7,914	-	7,914
Total financial assets	3,353	7,914	-	11,267
Trade and other payables	-	-	29,901	29,901
Interest bearing liabilities	-	-	42,309	42,309
Derivative financial instrument liabilities	-	686	-	686
Total financial liabilities	-	686	72,210	72,896
<b>At 31 July 2012</b>				
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
<b>Parent</b>				
<b>At 31 July 2013</b>				
Cash and cash equivalents	5	-	-	5
Related party receivable	81,944	-	-	81,944
Total financial assets	81,949	-	-	81,949
Trade and other payables	-	-	257	257
Total financial liabilities	-	-	257	257
<b>At 31 July 2012</b>				
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

**(e) 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.

**(f) 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.

<b>31 July 2013</b>	<b>Australia</b>	<b>New Zealand</b>	<b>United Kingdom</b>	<b>Elimination</b>	<b>Total</b>
	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>
Segment profit / (loss) before income tax	20,540	30,330	(2,348)	10,460	58,982
Income tax expense	(6,183)	(8,625)	-	-	(14,808)
Profit / (loss) after tax					44,174
Segment profit / (loss) before income tax includes the following specific income and (expenses):					
Sales to external customers	241,130	136,983	5,870	-	383,983
Sales to Group entities	588	1,169	-	(1,757)	-
Cost of sales	(81,251)	(57,881)	(2,826)	-	(141,958)
Interest income	40	10	-	-	50
Interest expense	(2,148)	(1,720)	-	-	(3,868)
Other finance costs	(299)	(308)	-	-	(607)
Intercompany net finance income/(expense)	(3,386)	3,386	-	-	-
Intercompany recharges income/(expense)	(8,895)	9,575	(680)	-	-
Depreciation and software amortisation	(7,009)	(3,202)	(398)	-	(10,609)
Exchange gain/(loss) on foreign currency borrowing	(10,415)	(164)	137	10,460	18
Additions of non-current assets	10,238	5,555	1,626	-	17,419
Total current assets	50,904	420,143	2,779	(379,895)	93,931
Total non-current assets	136,438	339,257	1,419	(194,828)	282,286
Total assets	187,342	759,400	4,198	(574,723)	376,217
Total current liabilities	(98,524)	(11,562)	(9,834)	81,100	(38,820)
Total non-current liabilities	(28,341)	(14,867)	-	-	(43,208)
Total liabilities	(126,865)	(26,429)	(9,834)	81,100	(82,028)



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					
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)

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.

The Group has no reliance on any single major customers.

Costs recharged between Group companies are calculated on an arms-length basis. The default basis of allocation is % of revenue with other bases being used where appropriate.

## 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.

	2013 '000	2012 '000
Weighted average number of shares in issue	200,197	200,000
Adjustment for:		
- Share options / performance rights	1,924	3,121
<b>Total potential diluted ordinary shares</b>	<b>202,121</b>	<b>203,121</b>

## 29 EARTHQUAKE DISCLOSURES

The Christchurch earthquake that occurred on 22 February 2011 did not have a significant impact on trading. Kathmandu has business interruption insurance that provided cover for this event. Kathmandu's Cashel Street store was damaged in the earthquake and the lease of that store has since been terminated.

In the financial statements:

- Net proceeds received to date of \$293,000 (2012: \$0) arising from the business interruption and material damage claim relating to this has been recognised in the financial statements. The claim has still to be finally agreed with the insurers.
- All assets lost or damaged as a result of the earthquake have been written off, and the cost of this write-off is included in the calculation of net proceeds above.

## 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 ("the Company") on pages 31 to 72, which comprise the balance sheets as at 31 July 2013, the statements of comprehensive income and 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 2013 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 72:

- (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 2013, 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 2013:

- (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 blue ink that reads 'PricewaterhouseCoopers' in a cursive script.

Chartered Accountants  
24 September 2013

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	7
110,001	-	120,000	5
120,001	-	130,000	6
130,001	-	140,000	6
140,001	-	150,000	2
150,001	-	160,000	6
160,001	-	170,000	2
180,001	-	190,000	1
200,001	-	210,000	2
240,001	-	250,000	1
250,001	-	260,000	1
280,001	-	290,000	1
300,001	-	310,000	1
320,001	-	330,000	1
330,001	-	340,000	1
390,001	-	400,000	1
630,001	-	640,000	1
1,770,001	-	1,780,000	1

## DISTRIBUTION OF SHAREHOLDERS AND HOLDINGS

	Number of Holders	%	Number of Ordinary Shares	%
1 to 999	483	20%	274,029	0%
1,000 to 4,999	1,031	43%	2,727,074	1%
5,000 to 9,999	444	18%	3,248,662	2%
10,000 to 99,999	402	17%	9,501,173	5%
100,000 and over	45	2%	184,464,956	92%
Total	2,405	100%	200,215,894	100%

The details set out above were as at 4 September 2013.

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 49 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 4 September 2013.

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 4 September 2013, were as follows:

	Ordinary shares	%
Commonwealth Bank of Australia (8 April 2013)	16,609,706	8.3%
National Australia Bank (9 July 2013)	13,050,566	6.5%
Accident Compensation Corporation (4 September 2013)	11,970,983	6.0%
Milford Asset Management Limited (3 September 2013)	11,698,194	5.8%
FMR LLC and FIL Limited (11 April 2013)	11,287,339	5.6%
Fisher Funds Management Limited (9 July 2013)	10,447,023	5.2%
AMP (4 September 2013)	10,113,837	5.1%
Australian Super Pty Limited (5 July 2013)	10,110,349	5.0%

As at 4 September 2013, the Company had 200,215,894 ordinary shares on issue.

## PRINCIPAL SHAREHOLDERS

The names and holdings of the twenty largest shareholders as at 4 September 2013 were:

	Name	Ordinary Shares	%
1	NEW ZEALAND CENTRAL SECURITIES DEPOSITORY LIMITED	63,639,562	31.79%
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	37,998,867	18.98%
3	NATIONAL NOMINEES LIMITED	35,689,764	17.83%
4	CITICORP NOMINEES PTY LIMITED	12,981,895	6.48%
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,607,257	3.30%
6	J P MORGAN NOMINEES AUSTRALIA LIMITED	4,083,395	2.04%
7	CITICORP NOMINEES PTY LIMITED	3,404,614	1.70%
8	RBC INVESTOR SERVICES – AUSTRALIA NOMINEES PTY LIMITED	3,345,901	1.67%
9	BNP PARIBAS NOMS PTY LTD	2,387,090	1.19%
10	FNZ CUSTODIANS LIMITED	1,733,685	0.87%
11	BNP PARIBAS NOMS (NZ) LTD	1,674,561	0.84%
12	PETER HALKETT	1,485,518	0.72%
13	NEW ZEALAND DEPOSITORY NOMINEE LIMITED	949,575	0.47%
14	INVESTMENT CUSTODIAL SERVICES LIMITED	908,902	0.45%
15	RBC INVESTOR SERVICES – AUSTRALIA NOMINEES PTY LIMITED	841,252	0.42%
16	FRANED PTY LIMITED	717,600	0.36%
17	GOLDMAN SACHS AUSTRALIA PTY LTD	428,819	0.21%
18	QIC LIMITED	407,790	0.20%
19	BAINPRO NOMINEES PTY LIMITED	341,374	0.17%
20	ABN AMRO CLEARING SYDNEY – NOMINEES PTY LIMITED	338,261	0.17%

## DIRECTORS' SHAREHOLDINGS

Directors held interests in the following shares of the Company at 31 July 2013:

Peter Halkett	beneficially owned	1,485,518
Mark Todd	beneficially owned	370,480
	not beneficially owned	43,437
John Harvey	beneficially owned	51,563
John Holland	beneficially owned	102,033
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 2012 and 31 July 2013, 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
John Holland	Beneficial	20,000	NZD 1.75	05/10/2012
Peter Halkett <sup>1</sup>	Beneficial	25,686	-	18/12/2012
Mark Todd <sup>1</sup>	Beneficial	9,062	-	18/12/2012

1. Shares were issued as part of the Long Term Incentive Plan (refer note 19 of the financial statements).

## 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 2013.

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 2013, 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 2013, and those who ceased to hold office during the year ended 31 July 2012, 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 ended 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 2013 are as follows:

### MARK TODD

#### A director of:

City Care Limited

### JOHN HARVEY

#### A director of:

DNZ Property Fund Limited

Port Otago Limited

New Zealand Opera Limited

Heartland Bank Limited

Balance Agri-Nutrients Limited

#### An advisor to the board of:

Resource Coordination Partnership Limited

### SANDRA MCPHEE AM

#### 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 HOLLAND

#### A partner of:

Chapman Tripp

#### A director of:

Southbase Construction Limited (appointed March 2013)

#### A member of:

Financial Markets Authority Capital Markets Disclosure Consideration Panel

### CHRISTINE CROSS

#### A director of:

Next Plc

Sonae Group Plc

Woolworths Limited

Plantasjen ASA

## 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

John Harvey	Acting Chairman, Non-Executive
Peter Halkett	Managing Director and Chief Executive Officer
Mark Todd	Finance Director and Chief Financial Officer and Company Secretary
Christine Cross	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](http://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](http://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

[www.kathmandu.com.au](http://www.kathmandu.com.au)

### VIC

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

### NSW

Albury  
Birkenhead Point Outlet Store  
Bondi Junction  
Castle Towers  
Chatswood Outlet Store  
Chatswood Westfield  
Coffs Harbour  
Cronulla

Eastgardens  
Erina Fair  
Hornsby  
Macarthur  
Macquarie  
Newcastle  
Orange  
Parramatta  
Penrith  
Sydney City (Kent Street)  
Sydney City (Pitt Street)  
Redyard (Auburn)  
Rouse Hill  
Shellharbour  
Tamworth  
The Rocks  
Tuggerah  
Wagga Wagga  
Warringah  
Wollongong

### SA

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

### ACT

Belconnen  
Canberra Centre  
Canberra Outlet Store  
Woden

### QLD

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

### TAS

Devonport  
Hobart (Salamanca Square)  
Hobart CBD (Elizabeth Street)  
Launceston

### WA

Carousel  
Cottesloe  
Fremantle  
Innaloo  
Morley  
Perth CBD  
Perth Harbourtown Outlet Store  
Whitford

### NT

Casuarina

## NEW ZEALAND

[www.kathmandu.co.nz](http://www.kathmandu.co.nz)

### NORTH ISLAND

Albany  
Auckland (Queen Street)  
Auckland (Victoria Street)  
Botany  
Broadway  
Coastlands  
Gisborne  
Hamilton  
Hastings  
Lyll Bay  
Manukau  
Masterton  
Napier  
New Plymouth  
Onehunga Outlet Store

Otaki  
Palmerston North  
Petone  
Pukekohe  
Rotorua  
Sylvia Park  
Takapuna  
Taupo  
Tauranga CBD  
Tauranga (Fraser Cove)  
Te Rapa  
Waitakere  
Wanganui  
Whakatane  
Whangarei  
Wellington

Westgate  
Willis Street Outlet Store

### SOUTH ISLAND

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

## UNITED KINGDOM

[www.kathmandu.co.uk](http://www.kathmandu.co.uk)

Bristol  
London (Covent Garden)  
London (High Street Kensington)  
London (Spitalfields)  
London (White City)

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