



**Kathmandu**<sup>®</sup>

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ANNUAL REPORT 2014



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**NOTICE OF ANNUAL GENERAL MEETING**

11:00am Friday  
21 November 2014  
Crown Promenade Melbourne  
8 Whiteman Street  
Southbank  
Victoria  
Australia

# CHAIRMAN'S REPORT



**David Kirk**  
Chairman

I am pleased to present my first report as Chairman of Kathmandu. In the 2014 financial year, Kathmandu again achieved record sales and earnings before interest and tax.

Kathmandu continues to maintain its leadership of the outdoor, travel and adventure categories in Australasia. In FY2014 Kathmandu achieved strong same store sales growth in both Australia and the UK. Additional growth in sales came from 15 new permanent stores opened during the year. The company also achieved a satisfactory trading result in a competitive New Zealand market, despite a very warm start to winter and a consequent slow start to our Winter Sale.

## FINANCIAL RESULTS

The financial results for FY2014 were good, especially compared to other retailers in Australia and New Zealand. Here are the highlights:

- ▶ Sales growth of 2.3% to \$392.9m;
- ▶ Gross margin of 63.1% (FY2013:63.0%);
- ▶ Increase in earnings before interest and tax of 1.4% from NZ\$63.4m to NZ\$64.3m;
- ▶ Earnings per share of 21.0 cents per share, down 1.1c.

The result was primarily attributable to continued growth in Australia, where same store sales growth of 6.9% and unchanged gross margins resulted in EBITDA growth of A\$4.8m or 13.3%. Group gross margin improved slightly compared to last year. Operating costs increased modestly as a % of sales and overall EBITDA and EBIT margins reduced slightly.

## PEOPLE

These strong results, which continue Kathmandu's success since listing on the New Zealand and Australian stock exchanges, have been achieved by a very capable and dedicated management team.

The leader of that team, Chief Executive Peter Halkett, announced his resignation in August after eight years leading the company. Peter joined Kathmandu at the end of 2006 and since then he has steered the company through a period of strong growth under private equity ownership, a successful listing on the ASX and NZX, and continued strong growth as a public company.

Since listing, Peter has led a re-launch of the Kathmandu brand, extensive re-design of product ranges, a doubling of store numbers in Australia, and a 50% increase in sales and net profit. This growth has seen Kathmandu gain entry to both the ASX200 and NZX50 indices.

The Board is very grateful to Peter for his achievements and leadership of the company over eight years and we wish him well in the next stage of his career.

Peter leaves the company having developed and begun the implementation of a set of strategies that we are confident will continue to deliver growth for the company in the years to come. He also leaves a strong and experienced management team who will continue to manage the business and support the new CEO as he/she learns the Kathmandu business.

Our search for a new CEO has begun, and while that continues Mark Todd will become acting CEO. Mark has been with the company for over 16 years; he understands Kathmandu well and has contributed widely to the company's success as both CFO and COO. We are fortunate to have

an executive of Mark's experience and talent to lead the company for this interim period.

2014 has been a very busy year for the whole Kathmandu management team. The Board joins me in thanking them all for the energy, enthusiasm and capability they have shown in delivering another record result. Once again this talented team have delivered an improved trading performance and, at the same time, instituted a wide range of business improvement initiatives designed to set the company up for longer-term growth.

### GROWTH STRATEGIES AND INVESTMENT

Kathmandu has a clear and consistent set of growth strategies and they are working. We will continue to implement them in FY2015:

- ▶ Roll-out more new stores in Australia and New Zealand;
- ▶ Grow our Summit Club loyalty programme;
- ▶ Develop an even stronger product offering;
- ▶ Grow online sales in Australasia and from international markets; and
- ▶ Optimise the ranges, merchandising, service and fit-out of our existing store network.

These growth strategies are underpinned by a substantial capital investment programme, and we will continue with that as well. Apart from new store fit-outs and refurbishments of current stores, most of our capital expenditure is in information technology systems. We are now implementing a fully integrated information technology platform from point-of-sale in store through to warehouse management. The system takes in online sales and their fulfillment and connects to our financial systems. The Board and management are convinced that this investment is essential to move the company fully into the world of omni-channel retailing. We are well into the implementation of the new system and expect to be finished early in 2015.

### INTERNATIONAL GROWTH

We are preparing now for the time – perhaps 3 years hence – when the bulk of our new store rollout in Australia and New Zealand will be completed. We now have 145 stores in Australasia and we think the total we will open is around 180. We expect to continue to drive strong same store sales growth from our Australian stores for many years after we have established our full store footprint, but we need to begin the process of expanding outside Australia and New Zealand while we still have strong growth in our home markets. Our long-term objective is to become a leading global brand in the outdoor travel and adventure market. FY2015 will see us take a confident next step in that direction.

In FY2015 we will spend an incremental \$5 million to grow brand awareness, establish the online and related

infrastructure, and add to our international management team as we begin to take Kathmandu to the world. We will initially focus on the United Kingdom, where we have four stores already, and other European markets. In the short term we will not be opening more physical stores but spending our money on marketing to develop our brand, build up our Summit Club membership and acquire customers online. We will make our brand and products widely available on online marketplaces in the United Kingdom and Europe. Our online offer will continue to be available to customers in over 40 countries around the world.

Our growth strategies are supported by our commitment to sustainability, which is an important part of everything we do. Our new head office in Christchurch will be a 5 Star Green Star rated building. We continue to work with our suppliers to proactively monitor the environmental and social impact of our products, with a focus on sustainable designs and achieving full visibility of the manufacturing process. Kathmandu's annual Sustainability Report details our progress and plans in this area in more detail.

### DIVIDEND

The Directors have declared an unchanged final dividend of 9 cents per share, which with the 3 cents interim dividend, makes a total payout for the year of 12 cents per share, consistent with last year. The final dividend will be fully imputed for New Zealand shareholders, and fully franked for Australian shareholders. This dividend represents a payout ratio of over 57%.

Finally, I would like to thank my Board colleagues for their continuing commitment to making Kathmandu successful. In particular I thank John Harvey, who served as Chairman of the Board for 11 months after the unexpected death of James Strong. John led the Board very effectively and during his tenure made an important contribution to the continued success of Kathmandu.

Thank you for your investment in Kathmandu. We appreciate that you expect to see growth in the value of your investment over time and that is what we are focused on delivering.

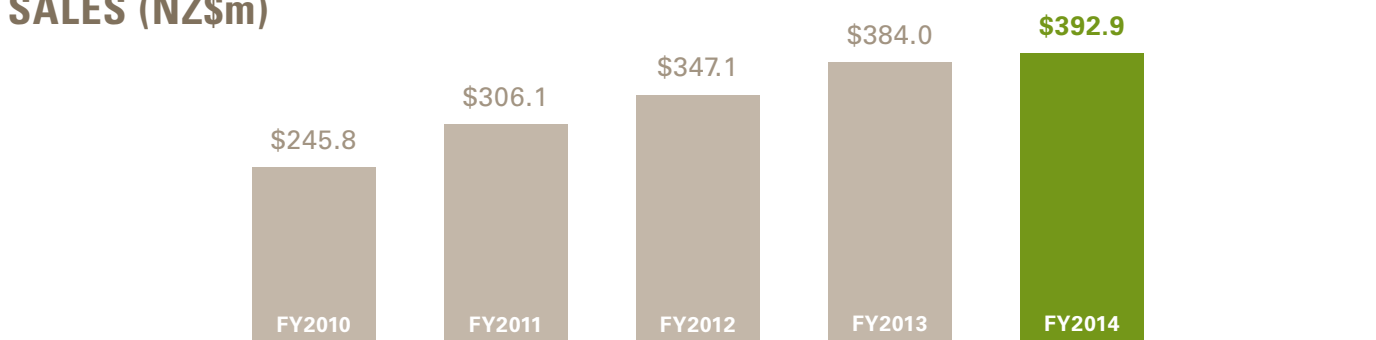


**David Kirk**  
Chairman

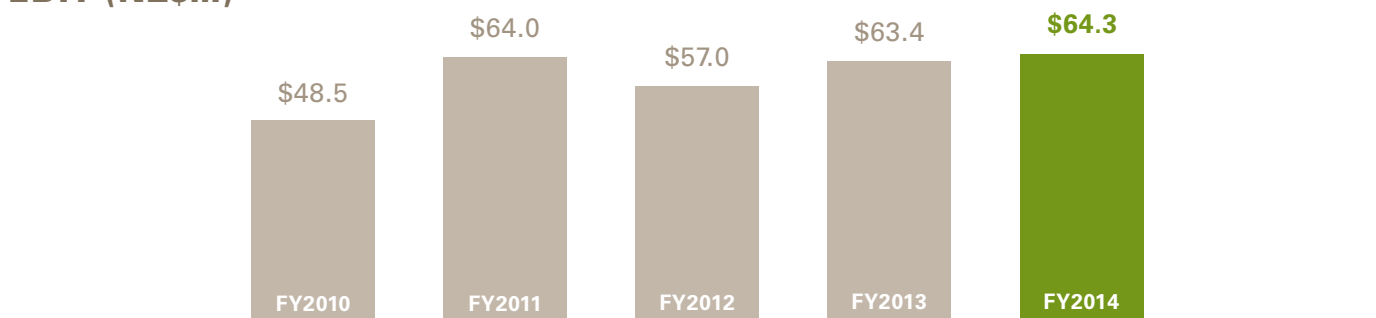
## KEY HIGHLIGHTS 2014

<b>RECORD SALES</b>	<b>\$392.9m</b>	<b>RECORD EBIT</b>	<b>\$64.3m</b>
<b>SAME STORE SALES GROWTH</b>	<b>4.2%</b>	<b>STORES OPEN</b>	<b>150</b>

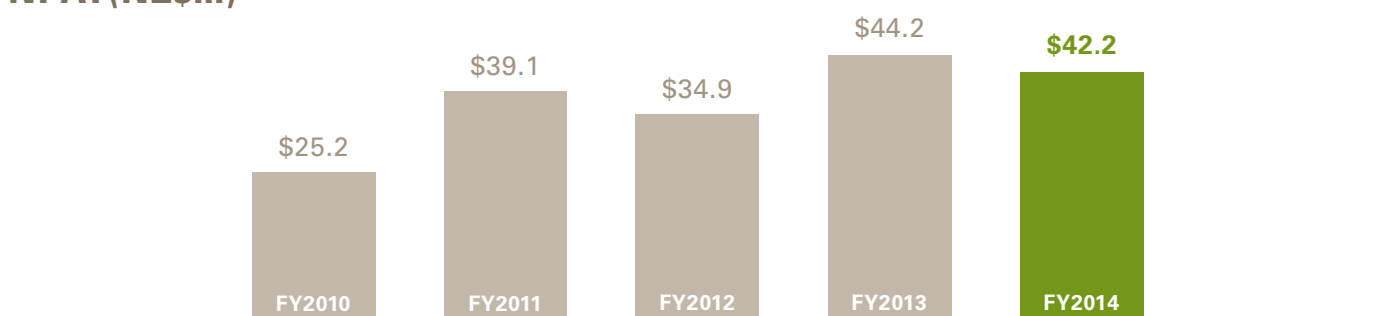
## SALES (NZ\$m)



## EBIT (NZ\$m)\*



## NPAT(NZ\$m)\*



\* FY2010 excludes the impact of IPO listing costs, and \$0.6m of net exchange losses on foreign currency borrowings.



# CHIEF OPERATING OFFICER'S REPORT



**Mark Todd**  
Finance Director and Chief Operating Officer

## KEY HIGHLIGHTS

- ⚡ Sales increased by 2.3% to \$392.9m.
- ⚡ Same store sales growth of 4.2% at constant exchange rates.
- ⚡ Gross margins improved 10bps.
- ⚡ Online sales up 35% and now over 5% of Group sales.
- ⚡ Summit Club member numbers grew 29.5%, 1 in 10 New Zealanders are active members.
- ⚡ Strong UK same store sales growth, 12.7%.
- ⚡ New Zealand distribution centre floor space extended by 50%.
- ⚡ Commitment to new purpose built office for Christchurch team to open in CBD FY2016.
- ⚡ 15 permanent new stores opened. Group now has 150 stores.
- ⚡ Improved earnings result on constant currency basis.

## RESULT OVERVIEW

Kathmandu's FY2014 result was a satisfactory outcome from a challenging year, underpinned by Australian same store sales growth of over 6% for the fourth consecutive year in our biggest market. This growth and an increase in overall gross margin helped to offset the weather influenced reduction in New Zealand same store sales in the second half of FY2014. UK same store sales growth of 12.7% was a positive outcome from the first period of trading under a re-aligned business model. Gross profit and operating costs both increased by a similar amount, and although actual NZD earnings for the Group were similar to the result in FY2013, on a constant currency basis earnings before interest and tax (EBIT) increased by \$6.6m (10.4%).

There was variation in the FY2014 sales performance across the 3 countries where Kathmandu has a retail store presence:

- ▶ New Zealand sales throughout the year were generally ahead of FY2013, apart from our key winter trading period. There was a double digit % reduction in sales in June, a month that was the warmest on record, and this shortfall could not be recovered in July.
- ▶ Australia also experienced a challenging June, but sales results overall for the winter season were close to expectations. This capped off good same store sales performance across the whole year. In this market, the key growth engine of our business, we continued to improve penetration and brand awareness.
- ▶ UK same store sales growth was strong in both stores and online channels.

Kathmandu's sales grew 14.8% in Australia and 2.9% in New Zealand, whilst the UK sales reduction of 22.6% reflected store closures in the previous year.

Long term target gross margins continued to be maintained in the 62 to 64 per cent range and there was a relatively consistent balance year-on-year of sales derived inside and outside of key promotional periods. The shortfall in New Zealand sales performance was in part offset by gross margin improvement.

15 permanent new stores were opened in FY2014, the majority outlet and regional stores. Our FY2014 sales and earnings contribution from new stores was below last year, primarily because they opened later in the period, and are in locations that, because of demographics, have lower sales potential than the stores opened in FY2013. Online sales grew by 35% at comparable exchange rates, mainly in the Australian and UK markets.

Operating expenses increased by c.70bps as a % of sales, reflecting a combination of sales performance slightly below expectation, increased advertising expenditure, brand building in the UK, and boosting internal team capability in online and systems development.



Our team continues to focus on delivering the growth strategies that we have regularly communicated to shareholders since our IPO in 2009. We have grown our Australian and New Zealand businesses through new store rollout, increasing brand awareness and building our Summit Club customer loyalty programme. These strategies will continue to build Australasian sales and earnings, and provide the platform to commit more investment to grow the Kathmandu brand and customer base globally, focused initially on the UK and Europe markets.

### FINANCIAL PERFORMANCE DETAIL

Group sales of \$392.9m increased by 2.3% over last year. The increase in same store sales was 4.2% measured at constant exchange rates, however due to depreciation of the AUD against the NZD, actual NZD same store sales for the Group decreased by 2.7%. The country specific change in same store sales was as follows:

- ▶ Australia +6.9%
- ▶ New Zealand -0.1%
- ▶ UK +12.7%

Total gross profit increased by \$6.1m (2.5%). Gross margin of 63.1% was 10bps higher than last year. Gross margins were unchanged in Australia and up 50bps in New Zealand. The influences that drive gross margin variability, such as weather (particularly in winter), product mix, and inventory levels, have been effectively managed through a well-structured and flexible promotional programme. Other than warm weather conditions during the first part of our winter sale campaign, key trading periods were not significantly affected by adverse weather in FY2014. Hedging rates on USD purchasing in FY2014 were marginally worse overall than last year.

Expenses excluding depreciation, amortisation and financing costs increased by \$6.7m (4.0%). This was an increase as a percentage of sales from 43.8% to 44.5%, partly attributable to the lower than targeted increase in sales. Across the year the key changes were:

- ▶ Property rent increased by \$0.7m, and reduced slightly as a % of sales, as we benefited from a portfolio of new Australian stores at generally lower rental levels in tandem with the strong same store sales growth in that market.
- ▶ Salaries and wages cost increased by \$3.15m, and by 40bps as a % of sales, with most of this increase arising from the growth in team members to support online and systems development programmes.
- ▶ Advertising spend increased by \$1.7m and by 30bps as a % of sales. Winter sale promotional spending after the difficult trading period in June, and the initial investment made in UK brand advertising accounted for most of the incremental \$ spend.

Most other operating expenses were unchanged or reduced as a % of sales.

We substantially increased our capital expenditure year on year, by \$6.8m (39.1%). This related primarily to investment in new core systems based on the Microsoft Dynamics AX platform. The investment made in “bricks and mortar” retail, in both new stores opened and existing stores relocated or refurbished, increased by \$2.1m (16.5%).

Two fewer permanent stores were opened in FY2014 than in FY2013, but our relocation and refurbishment programme involved more substantial projects than last year. Depreciation and amortisation expense declined year on year by \$0.4m (3.8%), but will increase next year as new systems infrastructure becomes operational. Capital expenditure in FY2015 and FY2016 is expected to be at least \$20m per annum as we move through the Australasian store rollout and deliver supporting physical and systems infrastructure projects.

Finance costs rose slightly during the year as debt levels increased to fund both inventory build and an increase in capital projects spend. We ended the year with higher than optimal levels of inventory, but a significant portion of this overstocking has already been addressed since balance date. Early next year we expect to go to market to renegotiate group bank facilities that expire in December 2015.

Whilst EBITDA and EBIT both increased slightly on last year, net profit after tax decreased by \$2m as a result of the effective group tax rate rising from c.25% to 29%. The increase in total tax expense of \$2.7m to \$17.5m reflected an increased 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 losses (in this year a gain) on the value of the loan at each balance date are taxable in the Australian company. Whilst this loan remains outstanding, this one-off tax charge in FY2014 (a tax benefit in FY2013) could reverse in a future year when the NZD/AUD exchange rate weakens.

### BUSINESS OVERVIEW

#### KATHMANDU'S MARKET POSITION

We continue to focus on the effectiveness of the Kathmandu business model, first and foremost as a brand, and then a retailer. In the Australasian market, retailers dependent on discretionary consumer spending face mounting competition from larger and arguably more sophisticated offshore competitors, selling to local customers both online, and through an increasing number of their own stores. These stores have generally been opened in higher end retail precincts, both malls and CBD's, in the major Australasian

cities. Kathmandu has taken a similar approach to building brand awareness and reputation in Australasia, in the last three years opening new high quality stores in prime retail and tourist precincts such as The Rocks and Pitt Street Mall in Sydney, the Emporium in Melbourne and Broadway in Auckland. These stores sit successfully amongst major global brands and are trading profitably.

As competition from offshore brands and retailers increases, and there is more crossover into the product categories that Kathmandu offers, the importance of our brand positioning will only increase. To continue to grow our market share and maintain margins, it is imperative that we maintain customer loyalty, and a quality product offer. Our ability to trade successfully in a wide cross section of retail precincts highlights the broad appeal the Kathmandu brand has to an increasingly diverse customer base. We will continuously focus on keeping this market leading position.

The level of investment we undertake is focused not just on maintaining our market leadership in Australasia, but also on enabling Kathmandu to grow in the global marketplace. As a vertical retailer Kathmandu branded product can still only be purchased through Australasia in our wholly owned store network and our websites. The majority of our customers are Summit Club members rather than off the street customers. We have developed sound core physical and systems infrastructure and wider team capability. This is a sound basis to support taking the Kathmandu brand to other markets.

Since our listing in 2009, one area of substantial change has been growth of the online sales channel. We expect the online proportion of business will continue to rise from 5% to 10% over the next three to five years. Kathmandu now has an effective online sales platform, coupled with a social network presence. This enables customers in over 40 countries worldwide to access the complete Kathmandu range online, and have it delivered directly to their home. Again the power of our vertically integrated brand is a competitive advantage to Kathmandu, as potential customers come directly to us in response to our own brand and promotional marketing. By comparison, non-vertical online retailers seek to maximise their own return through leveraging multiple competing brands offering similar products.

Continued growth in Kathmandu brand awareness in Australia has driven the increase in store rollout targets, and delivered real growth in same store sales. We expect to have at least 180 stores in the New Zealand and Australian network, compared to the 150 stores forecast in 2009. Growing brand awareness will also drive same store sales growth in Australia beyond store rollout. Sales per person in Australia are now nearly A\$10 compared to A\$4.64 in FY2009. This is only 33% of the New Zealand performance, but up from 25% five years ago on a constant currency basis. There is substantial growth to come before we meet our own long

term penetration targets and match the performance of other mature trans-Tasman discretionary retailers. We are confident our business model will continue to deliver real growth in Australia, over and above the earnings derived from the store rollout programme.

#### **PRODUCT RANGE AND INVENTORY:**

Product will always be fundamental to our success. We are committed to bringing to market high quality solutions that are innovative, well designed and priced competitively to meet our customers' needs. The product team has a passion for exploration and active participation and our diverse group represents 15 nationalities that have collectively travelled to more than 100 countries.

At the pinnacle of Kathmandu's product range is the XT Series®. We partner with our Best in Field Gear Testers to create the best possible products for serious athletes in the most extreme environments. New additions to the wider range include driFILL® and driCOTTON® (water repellent down and cotton) used in a variety of clothing styles and sleeping bags.

We are committed to increasing the return from each item in our product range. In core categories such as insulation and rainwear, where we lead the market, we deliver comprehensive updated offerings, incorporating significant technical advancements and introducing lifestyle and low profile silhouettes. New styles reinforce Kathmandu's authority as market leader within these and other key technical product groups. We also continue to invest in emerging categories such as outdoor lifestyle and active wear.

As previously noted, inventory levels were higher than we had targeted at 31 July. The total value of inventory, \$103.8m, was nearly 30% up on last year. We planned to lift inventory levels to support operating stocks for the growing store network, and anticipating higher sales, we invested in stock primarily for the winter season in Australia across higher price point categories such as down jackets and Gore-Tex® rainwear. This didn't eventuate, and inventory growth was the primary reason for the \$18.7m increase on last year in current assets in Australia. New Zealand and UK inventory levels also grew, but at much lower rates.

Although we carried above optimal units and \$ value of stock into the new financial year, the most critical portion of this overstocking was immediately addressed through a compelling winter clearance campaign. It was necessary to write down a small amount (\$0.35m) of clearance stock held at balance date which is being sold below cost, and by the end of the August clearance stock levels across the Group were satisfactory. At balance date, stock per store had increased year on year by 18.5%. By the end of August 2014, the year on year increase in stock per store was 11.8%. Importantly, the introduction of the first phase of our new forecasting



and planning system means the inbound order quantities in FY2015 for current styles are substantially reduced.

### SYSTEMS

A key enabler to our medium and long term growth objectives will be investment in information systems. We will soon be operating software modules provided by Microsoft Dynamics AX for Retail and partner vendors in key areas such as demand planning, warehouse management and financials. This enhanced business capability will lead to our next stage of development in FY2015 on product lifecycle management, enhanced customer relationship management and integrated omni-channel retail functionality.

### STORE NETWORK

The sourcing of new store sites was challenging for Kathmandu in the past year, with stores generally opening later than the prior year. Seven of the fifteen new stores were not opened until the last seven weeks of the financial year. Permanent store numbers totalled 149 at 31 July: New Zealand 45, Australia 100 and UK 4. 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:** Chadstone, Emporium, Northland and Uni Hill (Melbourne), West Lakes (Adelaide), Belmont (Perth), Indooroopilly and Jindalee (Brisbane), Rockhampton and Hervey Bay (QLD), Charlestown (NSW), Shepparton and Traralgon (VIC), Bunbury (WA).

**New Zealand:** St Lukes (Auckland).

In the first half of FY2014 we closed an outlet store in Chatswood Sydney, and our White City Westfield store in London.

There was a reduction in the earnings contribution from the new stores opened in FY2014 compared to the group opened in FY2013. In the coming year, we have leases for eight new stores already confirmed, and most of these stores are expected to open by Christmas this year. We expect to open around 15 new stores in FY2015.

In the past two years there has been a substantial shift in the balance of capital expenditure spent on re-investment in existing stores, a core aspect of maintaining brand positioning and ensuring our retail network remains aligned with the quality of our product offering. In FY2014, we completed major refurbishments on three stores; Queen Street and Petone in New Zealand, and our Brisbane CBD store. Four stores in New Zealand and two in Australia were relocated. The refurbishment work on the UK store portfolio was completed, which undoubtedly assisted in the improved same store sales outcome in that market.

### UK BUSINESS AND INTERNATIONAL MARKETS

Same store sales growth of 12.7% was a satisfactory outcome from our first period of trading under a new business model in the UK. Refurbished stores delivered improved sales performance in a market that remains challenging. These stores are now focused on showcasing the Kathmandu brand. Successfully growing active Summit Club members through connection with the brand in store or online will be one key performance indicator of UK growth prospects. A slightly higher loss in the full year result reflected planned uplifted spend on brand advertising.

Online sales through our UK website grew by over 50% in the year. Sales through our website were supplemented by good initial sales in the Amazon and NEXT marketplace sites. As we continue to build brand awareness, we expect Kathmandu's UK website and marketplace sites to experience strong on-going sales growth. This growth will extend into European markets in the year ahead, as we have

commitments to move into further marketplace sites, and will invest in online brand building and customer acquisition activity to support this programme.

Kathmandu's online sales from its Australasian websites now include a small portion shipped to international markets, and we will closely monitor progress in this area. Our initial focus in introducing global customers to Kathmandu will be through our one million plus Australasian Summit Club members, facilitating sales opportunities such as gift giving and free shipping, and incentivising global customers to become Summit Club members.

### INFRASTRUCTURE

We extended the footprint of our New Zealand distribution centre in FY2014, increasing floor size by 50%. The new layout will facilitate the effective operation of our rapidly growing online distribution activity, and was a key business driver for this investment. In Australia we have initiated a review of our distribution network requirements, and anticipate relocating to expanded premises in FY2016.

We have recently announced our commitment to relocate to a new purpose built office in the Christchurch CBD. The Christchurch based support office will house over 160 staff, including almost all of our key product development and sourcing group, and the majority of the Kathmandu Executive. Our current office in the outer suburbs would otherwise have required earthquake repairs and an extension to cater for our growing staff numbers. We expect to move into our new premises early in 2016.

### SUSTAINABILITY

As a Kathmandu core value, sustainability is an integral part of our business strategy. Our on-going objective is to deliver value to our stakeholders and to continually position Kathmandu as an industry leader in this area.

In 2014, Kathmandu joined the Fair Labour Association in an effort to further enhance our well-developed social compliance program. We will be working closely with the Association toward full accreditation, and are pleased to be joining global industry leaders in promoting and protecting workers' rights.

This year we have also made significant strides in limiting the environmental impact of our business operations. We collaborated with the Green Building Council of Australia in developing Australia's first sustainable design standard for retail and committed to a 5-star Green Star rating design and build for the new Christchurch office.

Full details of our progress can be found in our 2014 Sustainability Report, prepared in accordance with the Global Reporting Initiative (GRI).

### OUR TEAM

Employee numbers as at 31 July 2014 increased from 1,920 last year to 2,074 this year, with permanent employees making up 70% of the total workforce. Our bi-annual employment engagement survey, in which over 60% of employees participated, gave Kathmandu a high rating in employee alignment and engagement, and placed



us comfortably in the top 50% of a cohort of over 200 companies across Australia, New Zealand and the UK. Our team viewed individual engagement, standard setting, accountability and team leadership as particular strengths of Kathmandu.

After balance date, Peter Halkett, our Chief Executive since October 2006, announced his resignation. Peter has led Kathmandu through eight years of substantial and successful growth. This included critical points in our growth path such as Kathmandu's listing on the ASX and NZX in 2009, and the implementation of the new Kathmandu branding from 2010 onwards. Peter leaves Kathmandu exceptionally well placed to continue growth in Australasia and take the next steps in growing the brand internationally. On a personal note, I want to thank Peter for the great working environment he delivered for me and the Kathmandu team to develop and grow with the business. Kathmandu's positioning today reflects a strong and effective leadership team, capable of continuing to take this business forward in 2015 with a new Chief Executive.

## MARKET OVERVIEW AND FUTURE OUTLOOK

The outdoor and travel category is not immune from the challenging environment for discretionary retailers in Australasia. In FY2014 a major Australian retailer in our category closed down, and another is in the process of shutting its New Zealand stores. Competition from big box local retailers, and growing online accessibility of international outdoor and travel brands are major drivers of this shift in competitor mix. Australasian retailers in our category continue to move, in whole or in part, to operating the same vertical business model as Kathmandu. The gross margins achievable in comparison to other discretionary retail product categories will continue to attract investment by local and global discount retailers.

Our vertical business model, provided it remains supported by continual reinvestment in our brand, will remain resilient in our current markets. The model also aligns effectively with growth in online sales channels. Given the apparent available returns on investment relative to other retail categories, we expect continued local and global merger and acquisition opportunity for good outdoor businesses and brands. As long as there are no major adverse economic or geopolitical events, we continue to have a positive outlook for further growth in the outdoor and adventure product categories.

## GROWTH STRATEGY

Kathmandu's growth opportunities over the next three years will be focused on two separate geographic areas. In Australasia we will deliver our 180 store network plan and keep building our brand positioning and awareness. We expect that our on-going optimisation of existing stores and product range will maintain same store sales growth in Australasia for a number of years.



Emporium, Melbourne

In the next three years we will also undertake an extensive investment programme, most of it operating expenditure, to build Kathmandu brand awareness, initially in the UK and European markets.

This investment will initially in FY2015 be in the range of \$5 million. The effectiveness of this programme will be reviewed to determine the ongoing level of investment for the following two years. We will continue to support growth with enabling activity including:

- ▶ investment in people capability;
- ▶ further enhancement of our Summit Club programme; and
- ▶ systems and process improvements in tandem with the rollout of Microsoft Dynamics AX for Retail across the business.

Kathmandu has real potential to be a leading brand in the outdoor and travel category on a geographically wider basis than just Australia and New Zealand, and we are now committed to fully testing this potential. At the same time we view our Australasian growth opportunities positively. Kathmandu's competitive advantage, with our market leadership delivering a very profitable core business, will enable us to grow our market reach. The future prospects for our brand are exciting.

**Mark Todd**

Finance Director and Chief Operating Officer

## THE BOARD



L to R - John Holland, Christine Cross, Peter Halkett, David Kirk, John Harvey, Sandra McPhee, Mark Todd

### DAVID KIRK

#### Chairman

Mr Kirk is the Chairman of Trade Me Group Ltd, Chairman of Hoyts Group Ltd, the co-founder and Managing Partner of Bailador Investment Management, and sits on the Board of Bailador portfolio companies. Mr Kirk's Executive Management career has seen him hold Chief Executive Officer roles at Fairfax Media and PMP Limited and the Regional President (Australasia) for Norske Skog.

### PETER HALKETT

#### Managing Director and Chief Executive Officer

Mr Halkett has directed the growth strategy for the business since joining Kathmandu in 2006.

Mr Halkett has extensive retail experience including CEO roles in New Zealand and the United Kingdom. Among the companies he has led, two were publicly listed, including Pacific Retail Group. Mr Halkett has announced his resignation effective 25 November 2014.

### MARK TODD

#### Finance Director and Chief Operating Officer

Mr Todd has been Kathmandu's senior financial executive since joining the Group in 1998, following previous financial management experience in apparel and retail.

Appointed Chief Operating Officer in May 2014, Mr Todd has been a Director of various Group companies and manager of the New Zealand business from 2004-2006.

### JOHN HARVEY

#### Non-Executive Director

Mr Harvey is a professional director with a background in accounting and professional services, including 23 years as a partner of PricewaterhouseCoopers where he 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.

### 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.

### 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.

### CHRISTINE CROSS

#### Non-Executive Director

Ms Cross has extensive experience in international retail and consumer goods 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.

# MANAGEMENT TEAM



**PETER HALKETT**  
Managing Director and Chief Executive Officer



**MARK TODD**  
Finance Director and Chief Operating Officer



**TAMALIN MORTON**  
GM, Sales and Marketing



**MICHELLE ADAMS**  
GM, Product



**CALEB NICOLSON**  
GM, Supply Chain



**PAUL STERN**  
GM, Business Development & Sustainability



**GRANT TAYLOR**  
Chief Information Officer



**REBECCA EDWARDS**  
GM, Human Resources



**REUBEN CASEY**  
GM, Finance



# DIRECTORS' REPORT

YOUR DIRECTORS PRESENT THEIR REPORT AND THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2014.

## DIRECTORS

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

### DAVID KIRK

Was appointed non-Executive Director, Member of the Audit and Risk Committee, Member of the Remuneration and Nomination Committee on 21 November 2013 and was appointed Chairman on 5 February 2014, and continues in these offices at the date of this report.

### PETER HALKETT

Was appointed as Managing Director and Chief Executive Officer on 9 October 2009, and has resigned effective 25 November 2014.

### MARK TODD

Was re-appointed as an Executive Director on 18 November 2011 and appointed as Finance Director, Chief Financial Officer on 9 October 2009, and continues in these offices at the date of this report. Was appointed Chief Operating Officer on 28 May 2014 and will be acting Chief Executive Officer following the resignation of Peter Halkett.

### JOHN HARVEY

Was re-appointed as a non-Executive Director, Chair of the Audit and Risk Committee, Member of the Remuneration and Nomination Committee on 16 November 2012, appointed as Interim Chairman and retired as Chair of the Audit and Risk Committee on 25 March 2013. Retired as Interim Chairman and reappointed as Chair of the Audit and Risk Committee on 5 February 2014. 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 Nomination Committee on 20 November 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 Nomination Committee on 20 November 2013, and continues in these offices at the date of this report.

### CHRISTINE CROSS

Was re-appointed as a non-Executive Director, Member of the Remuneration and Nominee Committee, Member of the Audit and Risk Committee on 20 November 2013, and continues in these offices at the date of this report.

Details of the experience and expertise of the Directors are outlined on page 12 of this Annual Report.

## RETIREMENT OF DIRECTORS

In accordance with the Company's constitution, David Kirk, John Harvey and Mark Todd 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 2014 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
David Kirk	6	6	3	3	3	3
Peter Halkett	9	9	XX	XX	XX	XX
Mark Todd	9	9	XX	XX	XX	XX
John Harvey	9	9	6	6	6	6
John Holland	9	9	6	6	6	6
Sandra McPhee	9	9	5	6	6	6
Christine Cross	9	9	4	6	6	6

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 \$42,152,000 (2013: \$44,174,000).

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 through wholly owned subsidiaries in New Zealand, Australia and the United Kingdom.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

As announced on 25 August 2014, Chief Executive Officer Peter Halkett tendered his resignation with effect from 25 November 2014.

No other 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 21 November 2014.

The Company does not currently have a 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 25 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 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. Key management personnel includes all Executives, which are personnel who are reporting directly to the Chief Executive Officer or Chief Operating Officer, designated as an Executive by the CEO and with responsibility and authority for management of a significant profit or cost centre;
- ▶ 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;
- ▶ 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 measureable performance hurdles to be met as criteria for receiving incentive based remuneration by way of cash or equity;
- ▶ The Executive Directors (Chief Executive Officer and Chief Operating 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
  - generally 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 2014

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 2014 review of base remuneration:

- ▶ Board Directors, 0% increase (2013: 3%);
- ▶ Executive Directors, no increase in base salary for Chief

Executive Officer (who has resigned since 31 July 2014). Chief Operating Officer due to increased accountability 14.9% increase (2013: 0%); and

- ▶ Executives, following individual performance evaluations and a review of market remuneration levels, base salary increase 13% (2013: 2%) in New Zealand, 10% (2013: 2.5%) in Australia.

The structure and levels of available short and long term incentives for FY2015 have been reviewed. In considering the total remuneration opportunity made available, the Board on the advice of the Committee has 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, 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 11 Executives including 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. Some Executives along with other senior management personnel have a remuneration framework incorporating only 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 contract, 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 (for FY2015 the Chief Operating Officer only following the impending resignation of the Chief Executive Officer) 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 Board including the Executive Directors with reference to wider long term growth strategies.

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

- ▶ the level of performance achieved against the Group's financial performance target (EBITDA) for the year; and
- ▶ the achievement of individual KPI's, provided a minimum level of performance is achieved against the Group's financial performance target (EBITDA) for the year.

For the years ended 31 July 2014 and 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.

## 3. Short term equity incentives with associated requirements relating to continuing employment with the Company

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 have a target of at least 45% of the total value of their annual short term incentive being equity based, with equity 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 as for the short term cash incentive.

Senior management personnel also have an annual short term incentive that is equity based, generally up to 12% 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 measurement of achievement of Group's financial performance target for the year (EBITDA).

Where the Group financial performance targets are achieved, vesting of the performance rights granted under this incentive will generally require the staff member (Executive or senior management personnel) 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. In FY2015 this condition also applies to a portion of the short term cash incentive available to the Executive Director (Chief Operating Officer), who does not typically participate in short term equity incentives.

For the years ended 31 July 2014 and 31 July 2013 the Group's financial performance targets (EBITDA) were not met and consequently no short term equity incentives were 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 (5 of these Executives are still employed as at 31 July 2014). Vesting of the options was 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 vested progressively in 3 equal tranches on the test dates of 1 October 2010, 2011 and 2012. If the TSR performance condition had not been achieved on the applicable test date there was a 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 has not granted any further options under the existing plan. The Board are of the view that this plan no longer represented an appropriate on-going long term incentive structure for the Company post the IPO.

#### Long term incentive plan

Shareholders reapproved the current long term incentive plan at the Company's 2013 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 specified performance periods (minimum two years), with the value of rights allocated between EPS and relative TSR determined each year.

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 per cent of the relevant portion of the award vests for achievement of targets and a further fifty per cent 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 given the current business strategy.

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 specified performance periods. These grants are subject to shareholder approval.

In 2014, the Committee resolved given the relevant circumstances, to grant the Executive Director with nil cost performance rights that:

- ▶ Are measured for a single specified performance period of three years; and
- ▶ Requires achievement of only relative TSR targets over the specified performance period.

The Committee has considered the use of a single three year performance period appropriate (rather than the previous two, three and four year performance periods) as it simplifies the LTI structure, is more closely aligned with the Company's business cycle and is consistent with market practice. To better support our evolving growth strategy, the Board has determined to prioritise share price growth for the purposes of evaluating long term performance. In these circumstances, relative TSR has been selected as the only performance measure to assess performance under the long term incentive plan. A target over the period of achieving at least the 50th percentile ranking in relative TSR amongst ASX 101-200 companies is considered a fair and appropriate basis for performance measurement which takes into account our growth strategy.

#### NON-EXECUTIVE DIRECTORS' FEES

The current aggregate limit for non-Executive Directors' fees is \$A800,000 per annum. In FY2014 the base fee payable (including superannuation if applicable) to the Chairman was \$A206,000 and to a non-Executive Director \$A103,000 per annum. Additionally \$A10,000 per annum is paid for sub-committee attendances. No increase has been proposed for the coming year commencing 1 August 2014.

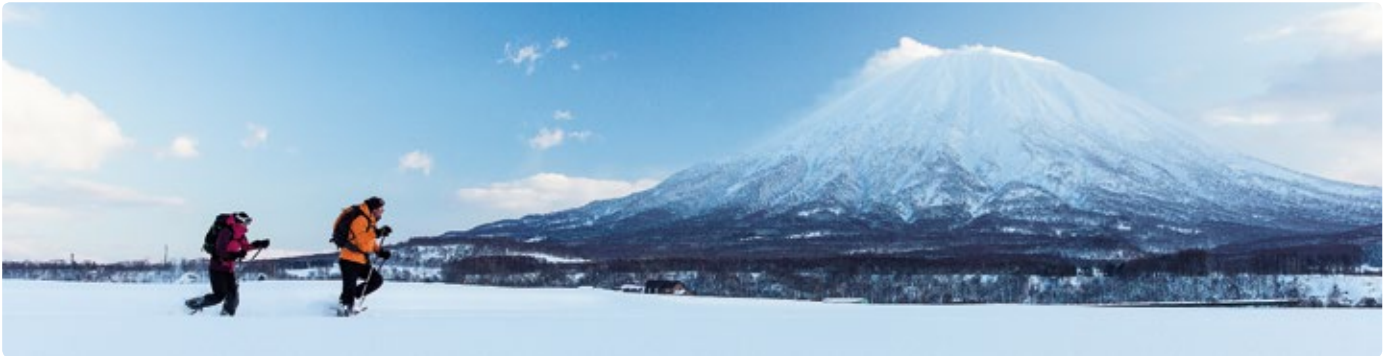
The Executive Directors do not receive Directors' fees. The amounts approved for Directors' fees are expressed in AUD given the specific requirements for remuneration reporting applying to ASX listed companies, however all amounts reported in the tables within this report are specified in NZD, being 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 2014 (converted to reporting currency)	NZD \$
Chairman	244,804
Other non-Executive Directors	128,069



## 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  
(resigned effective 25 November 2014)

**Mark Todd** – Chief Operating Officer

**Tamalin Morton** – General Manager, Sales & Marketing  
(resigned effective 17 December 2014)

**Michelle Adams** – General Manager, Product

**Caleb Nicolson** – General Manager, Supply Chain

**Paul Stern** – General Manager, Business Development & Sustainability

**Grant Taylor** – Chief Information Officer

**Matthew Watts** – General Manager, Retail Australia  
(resigned 9 August 2014)

**Brandon Beveridge** – General Manager, Retail New Zealand

**Reuben Casey** – General Manager, Finance  
(appointed 10 October 2013)

**Rebecca Edwards** – General Manager, Human Resources  
(appointed 28 May 2014)

All of the above persons were employed by the Group and were key management personnel for the full years ended 31 July 2014 and 31 July 2013, unless otherwise stated. Mark Todd, Michelle Adams, Caleb Nicolson, Grant Taylor, Brandon Beveridge, Reuben Casey and Rebecca Edwards 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).

The retail function for Australia and New Zealand will be managed from October 2014 by a newly appointed General Manager Retail Stores, Alison Evans.

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 years ended 31 July 2014 and 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 (FY2013 EXPENSE)

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 had been required to operate primarily out of our Melbourne office in the period following the Christchurch earthquake in February 2011, it was determined that since May 2011 he was primarily a tax resident in Australia. The Board and Chief Executive Officer 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 for FY2013 is reported in his remuneration in note 9(c) of the financial statements.

## C - SERVICE AGREEMENTS

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

**D – DETAILS OF SHARE-BASED COMPENSATION****Options Plan 2009**

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

Testing for the vesting of options granted under the Company Employee Option plan was 1 October in each year (for one-third of the options granted). From 1 October 2010 onwards in the event that the initial tranche of options did not vest on initial testing because the TSR performance target for the tested period was not met, the options did not lapse. There was 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	186,218
Peter Halkett	18 Nov 2009	186,218	1 Oct 2011	1 Oct 2013	88,912	186,218
Peter Halkett	18 Nov 2009	186,219	1 Oct 2012	1 Oct 2013	90,841	186,219
Mark Todd	18 Nov 2009	53,377	1 Oct 2010	1 Oct 2013	22,623	53,377
Mark Todd	18 Nov 2009	53,377	1 Oct 2011	1 Oct 2013	25,485	53,377
Mark Todd	18 Nov 2009	53,377	1 Oct 2012	1 Oct 2013	26,038	53,377
<b>Other Key Management Personnel</b>						
Michelle Adams	18 Nov 2009	26,755	1 Oct 2010	1 Oct 2013	11,340	26,755
Michelle Adams	18 Nov 2009	26,755	1 Oct 2011	1 Oct 2013	12,774	26,755
Michelle Adams	18 Nov 2009	26,756	1 Oct 2012	1 Oct 2013	13,052	26,756
Tamalin Morton	18 Nov 2009	36,932	1 Oct 2010	1 Oct 2013	15,653	36,932
Tamalin Morton	18 Nov 2009	36,932	1 Oct 2011	1 Oct 2013	17,634	36,932
Tamalin Morton	18 Nov 2009	36,933	1 Oct 2012	1 Oct 2013	18,017	36,933
Caleb Nicolson	18 Nov 2009	15,518	1 Oct 2010	1 Oct 2013	6,577	15,518
Caleb Nicolson	18 Nov 2009	15,518	1 Oct 2011	1 Oct 2013	7,409	15,518
Caleb Nicolson	18 Nov 2009	15,518	1 Oct 2012	1 Oct 2013	7,570	15,518
<b>Total</b>		<b>956,403</b>			<b>442,850</b>	<b>956,403</b>

The fair value of the options granted on 18 November 2009 is \$0.46 per option.

All options granted under this plan as detailed above vested on the 1 October 2013 as the required performance hurdles were achieved and the employees remained employed with the Company at the vesting date. Any options that vested 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 grants have been made subsequent to year end.

### Long term incentive plan

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. Since 2011, rights under this long term performance measurement structure were offered to the Executive Directors only.

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.

2014	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 2013	62,278	1 Dec 2015	1 Dec 2015	135,766
Peter Halkett	11 Dec 2013	62,278	1 Dec 2016	1 Dec 2016	135,766
Peter Halkett	11 Dec 2013	62,278	1 Dec 2017	1 Dec 2017	135,766
Mark Todd	11 Dec 2013	33,051	1 Dec 2015	1 Dec 2015	72,051
Mark Todd	11 Dec 2013	33,051	1 Dec 2016	1 Dec 2016	72,051
Mark Todd	11 Dec 2013	33,051	1 Dec 2017	1 Dec 2017	72,051
<b>Total</b>		<b>285,987</b>			<b>623,451</b>
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 2014	82,087
Peter Halkett	11 Dec 2012	54,688	1 Dec 2015	1 Dec 2015	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 2014	48,506
Mark Todd	11 Dec 2012	32,315	1 Dec 2015	1 Dec 2015	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>



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

2014	Type	Date Granted	Date Exercised	Number of Shares Issued	Exercised \$
<b>Executive Directors</b>					
Peter Halkett	Rights	29 Nov 2010	18 Dec 2013	59,048	-
Peter Halkett	Rights	18 Nov 2011	18 Dec 2013	19,994	-
Mark Todd	Rights	29 Nov 2010	18 Dec 2013	20,833	-
Mark Todd	Rights	18 Nov 2011	18 Dec 2013	11,815	-
Mark Todd	Options	01 Oct 2013	14 May 2014	160,131	341,607
<b>Other Key Management Personnel</b>					
Michelle Adams	Rights	29 Nov 2010	18 Dec 2013	6,131	-
Tamalin Morton	Rights	29 Nov 2010	18 Dec 2013	8,759	-
Tamalin Morton	Options	01 Oct 2013	7 Nov 2013	110,796	236,328
Paul Stern	Rights	29 Nov 2010	18 Dec 2013	3,810	-
Caleb Nicolson	Rights	29 Nov 2010	18 Dec 2013	5,952	-
Grant Taylor	Rights	29 Nov 2010	18 Dec 2013	5,357	-
<b>Total</b>				<b>412,626</b>	<b>577,935</b>
2013	Type	Date Granted	Date Exercised	Number of Shares Issued	Exercised \$
<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>	<b>-</b>

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.

	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	FY2014	0.0%	0.0%	FY2018	62,278	135,247
Peter Halkett	FY2014	0.0%	0.0%	FY2017	62,278	135,247
Peter Halkett	FY2014	0.0%	0.0%	FY2016	62,278	135,247
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	43.0%	57.0%	FY2014	-	-
Peter Halkett	FY2011	0.0%	0.0%	FY2015	59,048	63,181
Peter Halkett	FY2011	100.0%	0.0%	FY2014	-	-
Peter Halkett	FY2011	43.5%	56.5%	FY2013	-	-
Following his resignation, all rights granted to Peter Halkett with vesting dates in financial periods after FY2015 will lapse.						
Mark Todd	FY2014	0.0%	0.0%	FY2018	33,051	71,776
Mark Todd	FY2014	0.0%	0.0%	FY2017	33,051	71,776
Mark Todd	FY2014	0.0%	0.0%	FY2016	33,051	71,776
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	43.0%	57.0%	FY2014	-	-
Mark Todd	FY2011	0.0%	0.0%	FY2015	20,833	22,291
Mark Todd	FY2011	100.0%	0.0%	FY2014	-	-
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	100.0%	0.0%	FY2014	-	-
Michelle Adams	FY2011	43.5%	56.5%	FY2013	-	-
Tamalin Morton	FY2011	0.0%	0.0%	FY2015	8,759	9,372
Tamalin Morton	FY2011	100.0%	0.0%	FY2014	-	-
Tamalin Morton	FY2011	43.5%	56.5%	FY2013	-	-
Paul Stern	FY2011	0.0%	0.0%	FY2015	8,759	9,372
Paul Stern	FY2011	100.0%	0.0%	FY2014	-	-
Paul Stern	FY2011	43.5%	56.5%	FY2013	-	-
Caleb Nicolson	FY2011	0.0%	0.0%	FY2015	5,952	6,369
Caleb Nicolson	FY2011	100.0%	0.0%	FY2014	-	-
Caleb Nicolson	FY2011	43.5%	56.5%	FY2013	-	-
Grant Taylor	FY2011	0.0%	0.0%	FY2015	5,357	5,732
Grant Taylor	FY2011	100.0%	0.0%	FY2014	-	-
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
FY2014	\$42.2m	(4.5%)	21.0	0.95x	\$2.68	\$3.33	24.3%	\$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

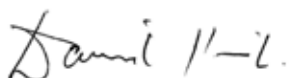
Details of remuneration of Auditors is set out in Note 22 of the Financial Statements.

### 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 the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- ▶ 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.



**David Kirk**  
Chairman



**Mark Todd**  
Finance Director and Chief Operating 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 (Third Edition), 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 (kathmanduholdings.com).

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

### BOARD OF DIRECTORS CHARTER 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 seven Directors on the Board. Five out of the seven Directors are non-Executive Directors. Peter Halkett, (Managing Director and Chief Executive Officer, resigning as of 25 November 2014), and Mark Todd (Finance Director and Chief Operating Officer) are the only Executive Directors on the Board. The Chairman of the Board is David Kirk. 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 "The Board" section of this Annual Report.

### BOARD PERFORMANCE

The Board charter provides for an annual performance evaluation that compares the performance of the Board with the requirements of this charter, reviews the performance of the Board's committees and individual Directors, and sets forth the goals and objectives of the Board for the upcoming year and effecting any amendments to this charter considered necessary or desirable of the Board and its Committees. The Board undertakes a review of its performance by the anonymous completion by Directors of evaluation questionnaires relating to Board and committee composition and performance, and individual interviews of Directors with the Chairman.

### 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 (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 David Kirk, 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 are members of this committee. John Harvey is Chair of the committee. The primary role of this committee includes:

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

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

## Remuneration and Nomination Committee

Under its charter, this committee must have at least three members, a majority of whom must be independent Directors and all of whom must be non-Executive Directors. Currently, all the non-Executive Directors are members of

this committee. Sandra McPhee is Chair of the committee. The main functions of the committee are to assist the Board with a view to establishing a Board of effective composition, size, expertise and commitment to adequately discharge its responsibilities and duties, and assist the Board with a view to discharging its responsibilities to Shareholders and other stakeholders to seek to ensure that the Company:

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

## RISK MANAGEMENT POLICY

The identification and proper management of the Company's risks are an important priority of the Board. The Company has a Risk Management Policy (available on the Company's website [kathmanduholdings.com](http://kathmanduholdings.com)) 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. A risk management framework is in place to identify, oversee, manage and control risk. A formal review of the risk framework was undertaken during the reporting period by the Committee.

## 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 Executives 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', Executives' 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, Executives and Key management personnel 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, Executives and key management personnel 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 Recommendation 1.5. A copy of this Policy can be obtained from the Company's website.

We consider our current level of employee gender diversity to be efficacious; however we will continue to be vigilant in the review of measureable diversity objectives.

### GENDER DIVERSITY

In accordance with ASX CGC Corporate Governance Principles and Recommendations, Recommendation 1.5; the proportion of females employed by Kathmandu as at 31 July 2014 was as follows:

- ▶ Board: 29% being 2 female of 7 Directors
- ▶ Executive Management: Total 11 = 8 Male (73%), 3 Female (27%)

- ▶ Senior Management (Wider Leadership Team): Total 49 = 28 Male (57%), 21 Female (43%)
- ▶ Total Employees New Zealand: Total 760 = 279 Male (37%) and 481 Female (63%)
- ▶ Total Employees Australia: Total 1,281 = 570 Male (44%) and 711 Female (56%)
- ▶ Total Employees United Kingdom: Total 33 = 21 Male (64%) and 12 Female (36%)
- ▶ Total Kathmandu Group: Total 2,074 = 870 Male (42%) and 1,204 Female (58%)

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 ([kathmanduholdings.com](http://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.

### ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

The Company prepares a separate Sustainability Report in accordance with the Global Reporting Initiative (GRI) G4 reporting framework. It is available online at [kathmanduholdings.com](http://kathmanduholdings.com).

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# FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2014

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# DIRECTORS' APPROVAL OF FINANCIAL STATEMENTS

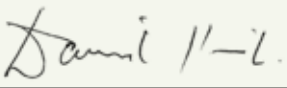
FOR THE YEAR ENDED 31 JULY 2014

**Authorisation for Issue**

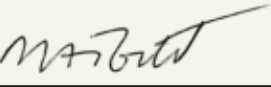
The Board of Directors authorised the issue of these Financial Statements on 23 September 2014.

**Approval by Directors**

The Directors are pleased to present the Financial Statements of Kathmandu Holdings Limited for the year ended 31 July 2014 on pages 31 to 73.

Director 

Date: 23 September 2014

Director 

Date: 23 September 2014

For and on behalf of the Board of Directors



# STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2014

	Note	GROUP		PARENT	
		2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Sales		392,918	383,983	-	-
Cost of sales		(144,777)	(141,958)	-	-
Gross profit		248,141	242,025	-	-
Other income		1,363	864	24,130	20,133
Selling expenses	4	(123,193)	(121,800)	-	-
Administration and general expenses	4	(62,055)	(57,700)	(1,773)	(1,941)
		64,256	63,389	22,357	18,192
Finance income		257	187	70	-
Finance expenses		(4,850)	(4,594)	-	(17)
Finance costs - net	4	(4,593)	(4,407)	70	(17)
<b>Profit before income tax</b>		<b>59,663</b>	<b>58,982</b>	<b>22,427</b>	<b>18,175</b>
Income tax (expense)/benefit	5	(17,511)	(14,808)	396	(45)
<b>Profit after income tax</b>		<b>42,152</b>	<b>44,174</b>	<b>22,823</b>	<b>18,130</b>
<b>Comprehensive Income that may be recycled to the Income Statement:</b>					
Movement in cash flow hedge reserve	20	(7,122)	8,376	-	-
Movement in foreign currency translation reserve	20	(3,794)	(18,186)	-	-
<b>Other comprehensive income for the year, net of tax</b>		<b>(10,916)</b>	<b>(9,810)</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year attributable to shareholders</b>		<b>31,236</b>	<b>34,364</b>	<b>22,823</b>	<b>18,130</b>
<b>Basic earnings per share</b>	28	21.0cps	22.1cps		
<b>Diluted earnings per share</b>	28	20.8cps	21.9cps		
<b>Weighted average basic ordinary shares outstanding ('000)</b>	28	200,422	200,197		
<b>Weighted average diluted ordinary shares outstanding ('000)</b>	28	202,303	202,121		

## STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2014

GROUP	Share Capital NZ\$'000	Cash Flow Hedge Reserve NZ\$'000	Foreign Currency Translation Reserve NZ\$'000	Share Based Payments Reserve NZ\$'000	Retained Earnings NZ\$'000	Total Equity NZ\$'000
<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>
Profit after tax	-	-	-	-	44,174	44,174
Other comprehensive income	-	8,376	(18,186)	-	-	(9,810)
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>
Profit after tax	-	-	-	-	42,152	42,152
Other comprehensive income	-	(7,122)	(3,794)	-	-	(10,916)
Dividends paid	-	-	-	-	(24,047)	(24,047)
Issue of share capital	858	-	-	(301)	-	557
Share Options / Performance Rights lapsed	-	-	-	-	-	-
Share based payment expense	-	-	-	211	-	211
<b>Balance as at 31 July 2014</b>	<b>198,228</b>	<b>(2,055)</b>	<b>(14,352)</b>	<b>733</b>	<b>119,592</b>	<b>302,146</b>

PARENT	Share Capital NZ\$'000	Cash Flow Hedge Reserve NZ\$'000	Foreign Currency Translation Reserve NZ\$'000	Share Based Payments Reserve NZ\$'000	Retained Earnings NZ\$'000	Total Equity NZ\$'000
<b>Balance as at 31 July 2012</b>	<b>422,386</b>	<b>-</b>	<b>-</b>	<b>739</b>	<b>(15,654)</b>	<b>407,471</b>
Profit after tax	-	-	-	-	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>-</b>	<b>-</b>	<b>823</b>	<b>(17,489)</b>	<b>405,792</b>
Profit after tax	-	-	-	-	22,823	22,823
Dividends paid	-	-	-	-	(24,047)	(24,047)
Issue of share capital	858	-	-	(301)	-	557
Share Options / Performance Rights lapsed	-	-	-	-	-	-
Share based payment expense	-	-	-	211	-	211
<b>Balance as at 31 July 2014</b>	<b>423,316</b>	<b>-</b>	<b>-</b>	<b>733</b>	<b>(18,713)</b>	<b>405,336</b>

# BALANCE SHEETS

AS AT 31 JULY 2014

	Note	GROUP		PARENT	
		2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	7	7,192	2,345	9	5
Trade and other receivables	8	3,779	3,668	262	256
Related party receivable	9	-	-	84,274	81,944
Derivative financial instruments	10	10	7,887	-	-
Inventories	11	103,767	80,031	-	-
Current tax assets		-	-	2,632	2,589
<b>Total current assets</b>		<b>114,748</b>	<b>93,931</b>	<b>87,177</b>	<b>84,794</b>
<b>Non-current assets</b>					
Property, plant and equipment	12	48,402	43,379	-	-
Intangible assets	13	238,674	234,863	5	4
Derivative financial instruments	10	138	27	-	-
Investment in subsidiaries	14	-	-	321,234	321,234
Deferred tax	15	6,335	4,017	6	17
<b>Total non-current assets</b>		<b>293,549</b>	<b>282,286</b>	<b>321,245</b>	<b>321,255</b>
<b>Total assets</b>		<b>408,297</b>	<b>376,217</b>	<b>408,422</b>	<b>406,049</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	16	37,489	33,032	82	257
Derivative financial instruments	10	2,999	58	-	-
Related party payable	9	-	-	3,004	-
Interest bearing liabilities	17	231	223	-	-
Current tax liabilities		2,739	5,507	-	-
<b>Total current liabilities</b>		<b>43,458</b>	<b>38,820</b>	<b>3,086</b>	<b>257</b>
<b>Non-current liabilities</b>					
Derivative financial instruments	10	209	628	-	-
Interest bearing liabilities	17	62,484	42,580	-	-
<b>Total non-current liabilities</b>		<b>62,693</b>	<b>43,208</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>106,151</b>	<b>82,028</b>	<b>3,086</b>	<b>257</b>
<b>Net assets</b>		<b>302,146</b>	<b>294,189</b>	<b>405,336</b>	<b>405,792</b>
<b>EQUITY</b>					
Contributed equity - ordinary shares	18	198,228	197,370	423,316	422,458
Reserves	20	(15,674)	(4,668)	733	823
Retained earnings	20	119,592	101,487	(18,713)	(17,489)
<b>Total equity</b>		<b>302,146</b>	<b>294,189</b>	<b>405,336</b>	<b>405,792</b>

# STATEMENTS OF CASH FLOWS

## FOR THE YEAR ENDED 31 JULY 2014

		GROUP		PARENT	
	Note	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
<b>Cash flows from operating activities</b>					
<b>Cash was provided from:</b>					
Receipts from customers		394,163	384,515	-	-
Dividends received		-	-	24,047	20,018
Income tax received		-	-	364	462
Interest received		50	50	-	-
		394,213	384,565	24,411	20,480
<b>Cash was applied to:</b>					
Payments to suppliers and employees		338,975	315,892	1,585	1,415
Income tax paid		19,555	18,411	-	-
Interest paid		4,488	4,586	-	-
		363,018	338,889	1,585	1,415
<b>Net cash inflow from operating activities</b>	6	<b>31,195</b>	<b>45,676</b>	<b>22,826</b>	<b>19,065</b>
<b>Cash flows from investing activities</b>					
<b>Cash was provided from:</b>					
Proceeds from sale of property, plant and equipment		8	10	-	-
		8	10	-	-
<b>Cash was applied to:</b>					
Purchase of property, plant and equipment	12	15,168	14,819	-	-
Purchase of intangibles	13	9,047	2,600	7	7
		24,215	17,419	7	7
<b>Net cash outflow from investing activities</b>		<b>(24,207)</b>	<b>(17,409)</b>	<b>(7)</b>	<b>(7)</b>
<b>Cash flows from financing activities</b>					
<b>Cash was provided from:</b>					
Proceeds of loan advances		53,577	96,225	674	941
Proceeds from share issues		557	-	557	-
		54,134	96,225	1,231	941
<b>Cash was applied to:</b>					
Dividends paid		24,047	20,018	24,047	20,018
Repayment of loan advances		32,778	103,758	-	-
		56,825	123,776	24,047	20,018
<b>Net cash outflow from financing activities</b>		<b>(2,691)</b>	<b>(27,551)</b>	<b>(22,816)</b>	<b>(19,077)</b>
<b>Net increase / (decrease) in cash held</b>		<b>4,297</b>	<b>716</b>	<b>3</b>	<b>(19)</b>
Opening cash and cash equivalents		2,345	1,811	5	26
Effect of foreign exchange rates		550	(182)	1	(2)
<b>Closing cash</b>	7	<b>7,192</b>	<b>2,345</b>	<b>9</b>	<b>5</b>

# 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 23 September 2014.

## 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 New Zealand's 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 (r) (i) & (ii). The recoverable amounts of cash-generating units have been determined based on the value in use. 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 expected to sell 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.

#### New standards first applied in the year

The Group has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) (XRB A1). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Group is a Tier 1 entity. There was no impact on the current or prior year financial statements.

Amendment to NZ IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare NZ IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The adoption of this standard has not resulted in any additional disclosures.

NZ IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The adoption of this standard has not resulted in any changes to the consolidated Group.

NZ IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across NZ

IFRSs. The requirements, which are largely aligned between NZ IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within NZ IFRSs. The adoption of this standard has not resulted in any measurement changes.

Amendments to NZ IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash generating units which had been included in NZ IAS 36 by the issue of NZ IFRS 13. The amendment is not mandatory for the Group until 1 January 2014, however the Group has decided to early adopt the amendment as of 1 August 2013.

## **(B) PRINCIPLES OF CONSOLIDATION**

### **(i) Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

## **(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 other comprehensive income. 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 in other comprehensive income.

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).

### **(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 period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity

or different taxable entities where there is an intention to settle the balances on a net basis.

**(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 e.g. 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 as 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 hedges); 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

Where 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 carrying value of payables are assumed to approximate their fair values.

### (P) OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### (Q) 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 – 84%
<b>Furniture and Fittings</b>	10 – 60%
<b>Computer Equipment</b>	10 – 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.

### (R) 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 straight line and diminishing value methods and rates of 10-67%.

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.

### **(S) 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.

### **(T) 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.

### **(U) 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.

### **(V) 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.

### **(W) 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.

### (X) 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.

### (Y) 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.

## 3 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS

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

NZ IFRS 9, 'Financial instruments', was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. This standard is effective for reporting periods beginning on or after 1 January 2018. The Group is yet to assess NZ IFRS 9's full impact.

NZ IFRS 15, 'Revenue from contracts with customers' is effective for annual reporting periods beginning on or after 1 January 2017. NZ IFRS 15 addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction contracts and is applicable to all entities with revenue. It sets out a 5 step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group has yet to determine the changes and impact on the Group's financial statements. The Group will apply this standard from 1 August 2017.

## 4 INCOME AND EXPENSES

	GROUP		PARENT	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
<b>Profit before income tax includes the following specific (income) and expenses:</b>				
<b>Income</b>				
Dividends received	-	-	(24,047)	(20,018)
<b>EXPENSES</b>				
<b>Depreciation</b>				
- Leasehold improvements	4,277	5,225	-	-
- Office, plant and equipment	438	537	-	-
- Furniture and fittings	2,429	2,544	-	-
- Computer equipment	1,348	496	-	-
- Motor vehicles	8	12	-	-
Total depreciation	8,500	8,814	-	-
<b>Amortisation</b>				
- Software	1,698	1,795	6	3
Total amortisation	1,698	1,795	6	3
Loss/(Gain) on sale of property, plant and equipment	597	955	-	-
Rental and operating lease expenses	44,461	43,801	-	-
Directors' fees	725	717	725	717
Employee entitlements:				
- Wages, salaries and other short term benefits	71,871	68,719	-	-
- Employee share based remuneration	211	209	211	209
<b>Finance Costs</b>				
Interest income	(50)	(50)	-	-
Interest expense	3,904	3,868	-	-
Other finance costs	570	607	-	-
Net exchange loss/(gain) on foreign currency borrowings	169	(18)	(70)	17

Remuneration of auditors is detailed in note 22.

Depreciation and amortisation expenditure is included in administration and general expenses in the Income Statement.

## 5 INCOME TAX EXPENSE

	Note	GROUP		PARENT	
		2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
<b>Income statement</b>					
Current income tax charge		16,846	18,826	(407)	62
Deferred income tax charge / (credit) (refer note 15)		665	(4,018)	11	(17)
<b>Income tax charge / (credit) reported in income statement</b>		<b>17,511</b>	<b>14,808</b>	<b>(396)</b>	<b>45</b>
<b>Reconciliation of effective tax charge</b>					
Profit before income tax		59,663	58,982	22,427	18,175
Income tax calculated at 28% (2013: 28%)		16,706	16,515	6,280	5,089
Adjustments to taxation:					
Adjustments due to different rate in different jurisdictions		812	530	-	-
Non-taxable income		(197)	-	(6,734)	(5,606)
Expenses not deductible for tax purposes		863	630	60	69
Effect of change in corporate tax rate		-	-	-	-
Utilisation of tax losses by group companies		-	-	-	-
Tax expense transferred to foreign currency translation reserve		(670)	(2,929)	-	-
Adjustments in respect of prior years		(3)	62	(2)	493
<b>Income tax charge / (credit) reported in income statement</b>		<b>17,511</b>	<b>14,808</b>	<b>(396)</b>	<b>45</b>

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

		GROUP		PARENT	
		2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Movement in cash flow hedge reserve before tax		(10,198)	11,203	-	-
Tax impact relating to cash flow hedge reserve		3,076	(2,827)	-	-
Movement in cash flow hedge reserve after tax		(7,122)	8,376	-	-
Foreign currency translation reserve before tax		(4,371)	(20,723)	-	-
Tax credit / (charge) relating to foreign currency translation reserve		577	2,537	-	-
Movement in foreign currency translation reserve after tax		(3,794)	(18,186)	-	-
Total other comprehensive income before tax		(14,569)	(9,520)	-	-
Total tax credit / (charge) on other comprehensive income		3,653	(290)	-	-
<b>Total other comprehensive income after tax</b>		<b>(10,916)</b>	<b>(9,810)</b>	<b>-</b>	<b>-</b>
Current tax		670	2,929	-	-
Deferred tax	15	2,983	(3,219)	-	-
<b>Total tax credit / (charge) on other comprehensive income</b>		<b>3,653</b>	<b>(290)</b>	<b>-</b>	<b>-</b>

**UNRECOGNISED TAX LOSSES**

The Group has estimated tax losses to carry forward from Kathmandu (U.K.) Limited of £9,529,783 (NZ\$18,612,857) (2013: £8,186,293 (NZ\$15,387,769)) which can be carried forward to be offset against future profits generated within the UK.

<b>IMPUTATION CREDITS</b>	<b>GROUP</b>		<b>PARENT</b>	
	<b>2014 NZ\$'000</b>	<b>2013 NZ\$'000</b>	<b>2014 NZ\$'000</b>	<b>2013 NZ\$'000</b>
Imputation credits available for use in subsequent reporting periods based on a tax rate of 28%	6,156	4,527	-	(1)

The above amounts represent the balance of the imputation account as at the end of July 2014, 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 in subsequent periods as at 31 July 2014 is A\$5,318,617 (2013: A\$5,794,857).

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

	<b>GROUP</b>		<b>PARENT</b>	
	<b>2014 NZ\$'000</b>	<b>2013 NZ\$'000</b>	<b>2014 NZ\$'000</b>	<b>2013 NZ\$'000</b>
Profit after taxation	42,152	44,174	22,823	18,130
<b>Movement in working capital:</b>				
(Increase) / decrease in trade and other receivables	(119)	(332)	(6)	5
(Increase) / decrease in inventories	(24,978)	(11,915)	-	-
Increase / (decrease) in trade and other payables	5,176	6,348	(175)	210
Increase / (decrease) in tax liability	(2,689)	(243)	(43)	525
	(22,610)	(6,142)	(225)	740
<b>Add non cash items:</b>				
Depreciation	8,500	8,814	-	-
Amortisation of intangibles	1,698	1,795	6	3
Revaluation of derivative financial instruments	3,079	(3,053)	-	-
(Increase) / decrease in deferred taxation	(2,432)	(1,076)	11	(17)
Employee share based remuneration	211	209	211	209
Loss on sale of property, plant and equipment	597	955	-	-
	11,653	7,644	228	195
<b>Cash inflow from operating activities</b>	<b>31,195</b>	<b>45,676</b>	<b>22,826</b>	<b>19,065</b>

## 7 CASH AND CASH EQUIVALENTS

	GROUP		PARENT	
	2014	2013	2014	2013
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Cash on hand	169	165	-	-
Cash at bank	7,009	2,166	9	5
Short term deposits	14	14	-	-
	7,192	2,345	9	5
The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:				
NZD	1,624	527	5	5
AUD	5,263	1,464	4	-
GBP	250	270	-	-
USD	52	84	-	-
EUR	3	-	-	-
	7,192	2,345	9	5

## 8 TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2014	2013	2014	2013
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Trade receivables	211	125	-	-
Sundry debtors and prepayments	3,568	3,543	262	256
	3,779	3,668	262	256
<b>Bad and doubtful trade receivables</b>				
The Group has not recognised a loss in respect of bad and doubtful trade receivables during the year ended 31 July 2014 (2013: nil).				
The carrying amount of the Group's trade and other receivables are denominated in the following currencies:				
NZD	1,075	2,076	199	256
AUD	2,435	1,019	63	-
GBP	269	573	-	-
	3,779	3,668	262	256

## 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 \$50,180 (2013: \$84,863) 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 2014, there were outstanding legal fees of \$5,437 (2013: \$4,989).

During the year, operating lease costs of \$238,407 (2013: \$229,282) 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 and Milford Group Holdings Limited) \$84,274,467 (2013: \$81,944,045).
- ▶ Loans to the parent from subsidiaries \$3,004,251 (2013: nil).

### (a) Key Management Personnel

	GROUP		PARENT	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Salaries	3,450	3,124	-	-
Other short-term employee benefits	350	1,187	-	-
Employee performance rights	211	202	211	202
Employee share option plans	-	7	-	7
	4,011	4,520	211	209

Key management personnel include the following employees:

Executive Directors:

- ▶ Chief Executive Officer
- ▶ Chief Operating Officer

Other Key Management Personnel:

- ▶ GM, Product
- ▶ GM, Finance
- ▶ 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	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Total directors fees	725	717	725	717

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

- ▶ David Kirk (appointed as a Director 21 November 2013, appointed Chairman 5 February 2014)
- ▶ Sandra McPhee
- ▶ John Harvey (acting Chairman until 5 February 2014)
- ▶ John Holland
- ▶ Christine Cross

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

2014 Name	Short-Term Benefits			Post-employment benefits	Share based payments				Total \$	Performance related \$
	Cash Salary and fees \$	Cash bonus \$	Non-Monetary benefits \$	Super-annuation \$	Share Options \$	Performance Rights \$	Equity related \$			
<b>Non-Executive Directors</b>										
David Kirk	144,853	-	-	-	-	-	0.0%	144,853	0.0%	
John Harvey	196,039	-	-	-	-	-	0.0%	196,039	0.0%	
John Holland	128,069	-	-	-	-	-	0.0%	128,069	0.0%	
Sandra McPhee	128,069	-	-	-	-	-	0.0%	128,069	0.0%	
Christine Cross	128,069	-	-	-	-	-	0.0%	128,069	0.0%	
<b>Total Non-Executive Directors</b>	<b>725,099</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.0%</b>	<b>725,099</b>	<b>0.0%</b>	
<b>Executive Directors</b>										
Peter Halkett	888,846	87,568	10,637	22,057	-	129,976	11.4%	1,139,084	7.7%	
Mark Todd	488,860	48,750	3,909	17,066	-	73,633	11.6%	632,218	7.7%	
<b>Total Executive Directors</b>	<b>1,377,706</b>	<b>136,318</b>	<b>14,546</b>	<b>39,123</b>	<b>-</b>	<b>203,609</b>	<b>11.5%</b>	<b>1,771,302</b>	<b>7.7%</b>	
<b>Other Key Management Personnel</b>										
	1,949,221	167,539	31,676	83,577	-	7,883	0.4%	2,239,896	7.5%	
<b>Total</b>	<b>4,052,026</b>	<b>303,857</b>	<b>46,222</b>	<b>122,700</b>	<b>-</b>	<b>211,492</b>	<b>4.5%</b>	<b>4,736,297</b>	<b>6.4%</b>	

2013	Short-Term Benefits			Post-employment benefits	Share based payments				
	Cash Salary and fees \$	Cash bonus \$	Non-Monetary benefits \$	Super-annuation \$	Share Options \$	Performance Rights \$	Equity related \$	Total \$	Performance 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>									
	716,627	-	-	-	-	-	0.0%	716,627	0.0%
<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>									
	1,315,146	180,000	684,549	56,999	4,746	176,485	7.5%	2,417,925	7.4%
<b>Other Key Management Personnel</b>									
	1,686,329	304,502	18,323	65,475	1,769	26,006	1.3%	2,102,404	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 Company 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.

## 10 DERIVATIVE FINANCIAL INSTRUMENTS

	GROUP		PARENT	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
<b>Asset</b>				
Interest rate swaps - cash flow hedge	148	27	-	-
Foreign exchange contracts - cash flow hedge	-	7,887	-	-
	148	7,914	-	-
Less non-current portion:				
Interest rate swaps - cash flow hedge	138	27	-	-
Current portion	10	7,887	-	-
<b>Liabilities</b>				
Interest rate swaps - cash flow hedge	298	686	-	-
Foreign exchange contracts - cash flow hedge	2,910	-	-	-
	3,208	686	-	-
Less non-current portion:				
Interest rate swaps - cash flow hedge	209	628	-	-
Current portion	2,999	58	-	-

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 floating rate 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 notional amount of interest rate swaps at balance date was \$48,373,626 (2013: \$44,971,623). The fixed interest rates range between 3.05% and 5.71% (2013: 3.05% 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 notional amount of foreign exchange contracts amount to US\$100,250,000, NZ\$122,888,501 (2013: US\$90,700,000, NZ\$107,499,336).

No material hedge ineffectiveness for interest rate swaps or foreign exchange contracts exists as at balance date (2013: nil).

Refer to note 26(a) for a sensitivity analysis of foreign exchange risk associated with derivative financial instruments.

## 11 INVENTORIES

	GROUP		PARENT	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Trading stock	91,392	64,597	-	-
Goods in transit	12,375	15,434	-	-
	103,767	80,031	-	-

Inventory has been reviewed for obsolescence and a provision of \$348,189 (2013: nil) has been made.

## 12 PROPERTY, PLANT AND EQUIPMENT

GROUP	Leasehold improvement \$'000	Office, plant & equipment \$'000	Furniture & fittings \$'000	Computer equipment \$'000	Motor vehicles \$'000	Total \$'000
<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
<b>Year ended 31 July 2014</b>						
Opening net book value	27,379	1,885	11,049	3,029	37	43,379
Additions	5,318	394	8,901	555	-	15,168
Disposals	(339)	(27)	(279)	(131)	-	(776)
Depreciation charge	(4,277)	(438)	(2,429)	(1,348)	(8)	(8,500)
Exchange differences	(567)	(26)	(261)	(15)	-	(869)
Closing net book value	27,514	1,788	16,981	2,090	29	48,402
<b>As at 31 July 2014</b>						
Cost	49,640	4,971	26,802	7,307	189	88,909
Accumulated depreciation	(22,126)	(3,183)	(9,821)	(5,217)	(160)	(40,507)
Closing net book value	27,514	1,788	16,981	2,090	29	48,402

## 13 INTANGIBLE ASSETS

GROUP	Goodwill NZ\$'000	Brand NZ\$'000	Software NZ\$'000	Total NZ\$'000
<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/impairment	(1,271)	-	(5,911)	(7,182)
Closing net book value	75,406	155,426	4,031	234,863
<b>Year ended 31 July 2014</b>				
Opening net book value	75,406	155,426	4,031	234,863
Additions	-	-	9,047	9,047
Disposals	-	-	(155)	(155)
Amortisation	-	-	(1,698)	(1,698)
Exchange differences	-	(3,328)	(55)	(3,383)
Closing net book value	75,406	152,098	11,170	238,674
<b>As at 31 July 2014</b>				
Cost	76,677	152,098	18,700	247,475
Accumulated amortisation/impairment	(1,271)	-	(7,530)	(8,801)
Closing net book value	75,406	152,098	11,170	238,674

<b>PARENT</b>	<b>Goodwill NZ\$'000</b>	<b>Brand NZ\$'000</b>	<b>Software NZ\$'000</b>	<b>Total NZ\$'000</b>
<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
<b>Year ended 31 July 2014</b>				
Opening net book value	-	-	4	4
Additions	-	-	7	7
Disposals	-	-	-	-
Amortisation	-	-	(6)	(6)
Exchange differences	-	-	-	-
Closing net book value	-	-	5	5
<b>As at 31 July 2014</b>				
Cost	-	-	14	14
Accumulated amortisation	-	-	(9)	(9)
Closing net book value	-	-	5	5

#### Impairment tests for goodwill and brand

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

<b>GROUP</b>	<b>GOODWILL</b>		<b>BRAND</b>	
	<b>2014 NZ\$'000</b>	<b>2013 NZ\$'000</b>	<b>2014 NZ\$'000</b>	<b>2013 NZ\$'000</b>
New Zealand	28,654	28,654	51,000	51,000
Australia	46,752	46,752	101,098	104,426
	75,406	75,406	152,098	155,426

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. Business plans are modelled assuming like for like sales growth based on historical performance taking into account changing market conditions and the continuation of the store rollout programme (approximately fifteen stores per year). The key assumptions used for the value in use calculation and the recoverable amounts are as follows:

	2014	2013
Terminal growth rate	2.5%	2.5%
New Zealand CGU pre-tax discount rate	15.0%	15.0%
Australia CGU pre-tax discount rate	14.0%	14.6%
Consolidated pre-tax discount rate	14.5%	14.8%

The calculations confirmed that there was no impairment of goodwill and brand during the year (2013: 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	
	2014	2013
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	2014 NZ\$	2013 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 2012	87	837	1	1,751	542	3,218
Recognised in the income statement	125	285	-	3,608	-	4,018
Recognised in other comprehensive income	-	-	-	(392)	(2,827)	(3,219)
As at 31 July 2013	212	1,122	1	4,967	(2,285)	4,017
Recognised in the income statement	6	(36)	-	(635)	-	(665)
Recognised in other comprehensive income	-	-	-	(93)	3,076	2,983
As at 31 July 2014	218	1,086	1	4,239	791	6,335

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 2012	-	-	-	-	-	-
Recognised in the income statement	-	-	-	17	-	17
As at 31 July 2013	-	-	-	17	-	17
Recognised in the income statement	-	-	-	(11)	-	(11)
As at 31 July 2014	-	-	-	6	-	6

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	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
<b>Deferred taxation assets:</b>				
- Deferred tax asset to be recovered after more than 12 months	2,081	1,705	-	-
- Deferred tax asset to be recovered within 12 months	4,661	2,803	6	17
<b>Deferred taxation liabilities:</b>				
- Deferred tax liability to be recovered after more than 12 months	(383)	(342)	-	-
- Deferred tax liability to be recovered within 12 months	(24)	(149)	-	-
	6,335	4,017	6	17



## 16 TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Trade payables	11,868	7,930	-	43
Employee entitlements	6,165	6,989	-	-
Sundry creditors and accruals	19,456	18,113	82	214
	37,489	33,032	82	257
The carrying amount of the Group's trade and other payables are denominated in the following currencies:				
NZD	9,064	7,534	44	169
AUD	26,067	22,301	38	88
GBP	502	906	-	-
USD	1,856	2,291	-	-
	37,489	33,032	82	257

## 17 INTEREST BEARING LIABILITIES

	GROUP		PARENT	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Current portion	231	223	-	-
Non-current portion	62,484	42,580	-	-
Total term loans	62,715	42,803	-	-

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 2014.

The current interest rates, prior to hedging, on the term loans ranged between 3.48% - 4.56% (2013: 3.53% - 3.73%).

The Group has 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 2014 is \$270,750 (2013: \$493,894). The loan is not repayable on demand.

	GROUP		PARENT	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
The principal of interest bearing liabilities is:				
Payable within 1 year	231	223	-	-
Payable 1 to 2 years	62,484	-	-	-
Payable 2 to 3 years	-	42,580	-	-
Payable 3 to 4 years	-	-	-	-
	62,715	42,803	-	-

#### 18 CONTRIBUTED EQUITY - ORDINARY SHARES

	GROUP		PARENT	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Ordinary shares fully paid (\$)	198,228	197,370	423,316	422,458
Balance at beginning of year	197,370	197,298	422,458	422,386
Issue of shares under Executive and Senior Management Long Term Incentive Plan	858	72	858	72
Balance at end of year	198,228	197,370	423,316	422,458

	GROUP		PARENT	
	2014 '000	2013 '000	2014 '000	2013 '000
Ordinary shares on hand at beginning of the year	200,216	200,166	200,216	200,166
Shares issued under Executive and Senior Management Long Term Incentive Plan	417	50	417	50
Ordinary shares on hand at end of the year	200,633	200,216	200,633	200,216

#### (a) Ordinary shares

As at 31 July 2014 there were 200,633,469 ordinary issued shares in Kathmandu Holdings Limited and these are classified as equity. 146,648 shares (2013: 49,954) were issued under the "Executive and Senior Management Long Term Incentive Plan 24 November 2010" and 270,927 shares (2013: nil) were issued under the "Executive Share Option Plan 16 October 2009" during the year ending 31 July 2014.

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 expired 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 (2013: nil) to Executive Directors and senior executives.

The fair value of options issued during the financial year is \$0 (2013: \$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 \$0 (2013: \$6,515) which represents this amortisation.

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

	2014		2013	
	Average exercise price \$ per share	Options '000	Average exercise price \$ per share	Options '000
Balance at beginning of year	2.1333	956	2.1333	956
Issued	-	-	-	-
Exercised	2.1333	(271)	-	-
Forfeited	-	-	-	-
Balance at end of year	2.1333	685	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	Expiry Month	Last Vesting Month	Exercise Price	2014 '000	2013 '000
October 2010	December 2014	October 2013	\$2.1333	229	319
October 2011	December 2014	October 2013	\$2.1333	228	319
October 2012	December 2014	October 2013	\$2.1333	228	318
				685	956

### Executive and Senior Management Long Term Incentive Plan

On 20 November 2013, shareholders approved at the Annual General Meeting the continuation of an Employee Long Term Incentive Plan (LTI) (previously established 24 November 2010) 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 2013	-	285,987	-	-	285,987
11 Dec 2012	261,009	-	-	-	261,009
30 Nov 2011	221,920	-	(31,809)	(42,165)	147,946
29 Nov 2010	229,678	-	(114,839)	-	114,839
	712,607	285,987	(146,648)	(42,165)	809,781

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

The performance rights granted on 11 December 2013 are Long Term Incentive components only.

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:

Kathmandu Holdings Limited relative TSR ranking	% Vesting
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:

Tranche	2014	2013
Tranche 1	24 months to 1 December 2015	24 months to 1 December 2014
Tranche 2	36 months to 1 December 2016	36 months to 1 December 2015
Tranche 3	48 months to 1 December 2017	48 months to 1 December 2016

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:

	2014	2013
Fair value of TSR rights	\$233,556	\$158,346
Current price at issue date	\$3.10	\$1.95
Risk free interest rate	3.65%	2.92%
Expected life (years)	2-4	2-4
Expected share volatility	38%	40%

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 \$60,721 (2013: \$36,925) 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 2013. The applicable performance periods are:

Tranche	2014 Performance Period	2013 Performance Period
Tranche 1	FY15 EPS relative to FY13 EPS	FY14 EPS relative to FY12 EPS
Tranche 2	FY16 EPS relative to FY13 EPS	FY15 EPS relative to FY12 EPS
Tranche 3	FY17 EPS relative to FY13 EPS	FY16 EPS relative to FY12 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 \$41,104 (2013: \$47,907) which represents this amortisation.

### Key Management Personnel

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

Grant Date	Balance at start of year Number	Granted during the year Number	Vested during the year Number	Lapsed during the year Number	Balance at the end of year Number
05 Dec 2013	-	162,369	-	(162,369)	-
04 Dec 2012	-	-	-	-	-
	-	162,369	-	(162,369)	-

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:

	2014	2013
Grant Date	05 Dec 2013	04 Dec 2012
Performance period (year ending)	31 Jul 2014	31 Jul 2013
Vesting Date	31 Jul 2016	31 Jul 2015

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\$3.16 per right (2013: \$1.58).

The non-market performance hurdles set for the year ending 31 July 2014 were not met and accordingly:

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

### Senior Management

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

Grant Date	Balance at start of year Number	Granted during the year Number	Vested during the year Number	Lapsed during the year Number	Balance at the end of year Number
05 Dec 2013	-	273,813	-	(273,813)	-
04 Dec 2012	-	-	-	-	-
	-	273,813	-	(273,813)	-

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 hurdles and vesting dates are summarised below:

	2014	2013
Grant Date	05 Dec 2013	04 Dec 2012
Performance period (year ending)	31 Jul 2014	31 Jul 2013
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\$3.29 per right (2013: \$1.70).

The non-market performance hurdles set for the year ending 31 July 2014 were not met and accordingly:

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

#### Expenses arising from equity settled share based payments transactions:

	GROUP		PARENT	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Share Option Plan 2009	-	7	-	7
Executive Directors and Key Management Personnel	211	202	211	202
Senior Management	-	-	-	-
	211	209	211	209

## 20 RESERVES AND RETAINED EARNINGS

(A) RESERVES	Note	GROUP		PARENT	
		2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
<b>(i) Cash flow hedging reserve</b>					
Opening balance		5,067	(3,309)	-	-
Revaluation - gross		(10,231)	11,230	-	-
Deferred taxation on revaluation	5	3,076	(2,827)	-	-
Transfer to net profit - gross		33	(27)	-	-
Closing balance		(2,055)	5,067	-	-
<b>(ii) Foreign currency translation reserve</b>					
Opening balance		(10,558)	7,628	-	-
Currency translation differences – Gross		(4,371)	(20,723)	-	-
Currency translation differences – Taxation	5	577	2,537	-	-
Closing balance		(14,352)	(10,558)	-	-
<b>(iii) Share based payments reserve</b>					
Opening balance		823	739	823	739
Current year amortisation		211	209	211	209
Transfer to Share Capital on vesting of shares to Employees		(301)	(72)	(301)	(72)
Share Options / Performance Rights lapsed		-	(53)	-	(53)
Closing balance		733	823	733	823
<b>Total Reserves</b>		<b>(15,674)</b>	<b>(4,668)</b>	<b>733</b>	<b>823</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 other comprehensive income, 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 FCTR is used to record foreign currency translation differences arising on the translation of the Group entities results and financial position. The amounts are accumulated in other comprehensive income 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	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Opening retained earnings	101,487	77,278	(17,489)	(15,654)
Profit for the year	42,152	44,174	22,823	18,130
Share Options/Performance Rights lapsed	-	53	-	53
Less dividends paid	(24,047)	(20,018)	(24,047)	(20,018)
Balance at 31 July	119,592	101,487	(18,713)	(17,489)

### 21 DIVIDENDS

	GROUP		PARENT	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Prior year final dividend paid	18,028	14,012	18,028	14,012
Current year interim dividend paid	6,019	6,006	6,019	6,006
Dividends paid (\$0.12 per share (2013: \$0.10))	24,047	20,018	24,047	20,018



## 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:

	GROUP		PARENT	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Audit services - PricewaterhouseCoopers				
Statutory audit	126	121	48	78
Half year review	30	28	30	28
Other assurance services <sup>1</sup>	7	19	-	-
<b>Total remuneration for audit services</b>	<b>163</b>	<b>168</b>	<b>78</b>	<b>106</b>

<sup>1</sup> Other assurance services relate to the preparation of revenue certificates.

## 23 CONTINGENT LIABILITIES

	GROUP		PARENT	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Liabilities outstanding under letters of credit	1,301	2,161	-	-
Rent guarantees	9,923	9,131	-	-
Financial guarantees	1,286	1,813	-	-

## 24 CONTINGENT ASSETS

There are no contingent assets in 2014 (2013: nil).

## 25 COMMITMENTS

### (a) Capital commitments

Capital commitments contracted for at balance date are:

	GROUP		PARENT	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Property, plant and equipment	3,420	479	-	-
Intangible assets	1,135	720	-	-
	<b>4,555</b>	<b>1,199</b>	<b>-</b>	<b>-</b>

**(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	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Due within 1 year	45,220	43,618	-	-
Due within 1-2 years	38,531	38,618	-	-
Due within 2-5 years	62,999	70,916	-	-
Due after 5 years	9,157	16,159	-	-
	155,907	169,311	-	-

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	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Total secured loans	62,444	42,309	-	-
less Principal covered by interest rate swaps	(48,374)	(44,972)	-	-
Net Principal subject to floating interest rates <sup>1</sup>	14,070	(2,663)	-	-

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 3.48% – 4.56% (2013: 3.53% – 3.73%). The Group has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its long-term debt. The cash flow hedge (gain)/loss on interest rate swaps at balance date was \$150,844 (2013: \$659,211).

### 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% (2013: -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% (2013: -10% / +10%) is reasonable given the exchange rate volatility observed on an historic basis for the preceding five year period and market expectation for potential future movements.

A sensitivity of 1% (2013: 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%				
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>31 July 2014</b>									
Derivative financial instruments (asset) / liability	3,060	(572)	852	572	(885)	-	(12,588)	-	10,299
<b>Financial assets</b>									
Cash	7,192	(52)	-	52	-	445	-	(364)	-
Trade receivables and sundry debtors	1,572	-	-	-	-	(112)	-	91	-
		(52)	-	52	-	333	-	(273)	-
<b>Financial liabilities</b>									
Trade payables	37,489	-	-	-	-	(2,274)	-	1,861	-
Borrowings	62,444	624	-	(624)	-	-	(4,396)	-	3,596
		624	-	(624)	-	(2,274)	(4,396)	1,861	3,596
<b>Total increase / (decrease)</b>		-	852	-	(885)	(1,941)	(16,984)	1,588	13,895

GROUP	INTEREST RATE RISK				FOREIGN EXCHANGE RISK				
	Carrying amount \$'000	-1% Profit \$'000	+1% Equity \$'000	-10% Profit \$'000	+10% Equity \$'000	-10% Profit \$'000	+10% Equity \$'000		
<b>31 July 2013</b>									
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

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	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Cash and cash equivalents	7,192	2,345	9	5
Trade receivables	211	125	-	-
Sundry debtors	1,360	883	-	-
	8,763	3,353	9	5

As at balance date the carrying amount is also considered to approximate 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 nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	GROUP		PARENT	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
<b>Cash and cash equivalents</b>				
Standard & Poors - AA-	6,949	2,075	9	5
Standard & Poors - A	-	270	-	-
Standard & Poors - BBB+	243	-	-	-
<b>Total cash and cash equivalents</b>	<b>7,192</b>	<b>2,345</b>	<b>9</b>	<b>5</b>
<b>Trade receivables:</b>				
Counterparties with external credit rating	-	-	-	-
Counterparties without external credit rating <sup>1</sup>	212	125	-	-
<b>Total trade receivables</b>	<b>212</b>	<b>125</b>	<b>-</b>	<b>-</b>

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 \$126,373,626 / \$115,000,000 AUD (2013: \$130,533,485 / \$115,000,000 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 2014</b>				
Trade and other payables	37,489	-	-	-
Guarantees	12,361	-	-	-
Borrowings	2,295	63,344	-	-
	52,145	63,344	-	-
<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	-

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.

	<b>Less than 1 year NZ\$'000</b>	<b>Between 1 and 2 years NZ\$'000</b>	<b>Between 2 and 5 years NZ\$'000</b>
<b>At 31 July 2014</b>			
Forward foreign exchange contracts			
- Inflow	119,979	-	-
- Outflow	(122,889)	-	-
Net Inflow / (Outflow)	(2,910)	-	-
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	(181)	(73)	(46)
<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)	(240)	(102)

**(d) Fair values**

The only financial instruments held by the Group that are measured at fair value are over-the-counter derivatives used for hedging. These derivatives have all been determined to be within level 2 (for the purposes of NZ IFRS 13) of the fair value hierarchy as all significant inputs required to ascertain the fair value of these derivatives are observable.

Financial instruments by category	Loans and receivables NZ\$'000	Derivatives used for hedging NZ\$'000	Measured at amortised cost NZ\$'000	Total NZ\$'000
<b>GROUP</b>				
At 31 July 2014				
Cash and cash equivalents	7,192	-	-	7,192
Trade and other receivables	1,572	-	-	1,572
Derivative financial instrument assets	-	148	-	148
Total financial assets	8,764	148	-	8,912
Trade and other payables	-	-	33,087	33,087
Interest bearing liabilities	-	-	62,444	62,444
Derivative financial instrument liabilities	-	3,208	-	3,208
Total financial liabilities	-	3,208	95,531	98,739
At 31 July 2013				
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>PARENT</b>				
At 31 July 2014				
Cash and cash equivalents	9	-	-	9
Related party receivable	84,274	-	-	84,274
Total financial assets	84,283	-	-	84,283
Trade and other payables	-	-	82	82
Related party payable	3,004	-	-	3,004
Total financial liabilities	3,004	-	82	3,086
At 31 July 2013				
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

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. The fair value of term liabilities equates to their current carrying value.

**Foreign exchange contracts and interest rate swaps**

The fair value of these instruments is determined by using valuation techniques (as they are not traded in an active market). These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Specific valuation techniques used to value financial instruments include the fair value of interest rate swaps calculated as the present value of the estimated future cash flows based on observable yield curves and the fair value of forward foreign exchange contracts determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

**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 approximately nil. Details of guarantees are included in note 23. All guarantees are payable on demand.

**(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.

31 July 2014	Australia NZ\$'000	New Zealand NZ\$'000	United Kingdom NZ\$'000	Elimination NZ\$'000	Total NZ\$'000
Segment profit / (loss) before income tax	29,651	30,721	(3,107)	2,398	59,663
Income tax expense	(8,926)	(8,585)	-	-	(17,511)
Profit / (loss) after tax					42,152
Segment profit / (loss) before income tax includes the following specific income and (expenses):					
Sales to external customers	247,305	140,951	4,662	-	392,918
Sales to Group entities	1,064	1,464	181	(2,709)	-
Cost of sales	(83,454)	(58,974)	(2,349)	-	(144,777)
Interest income	27	23	-	-	50
Interest expense	(2,762)	(1,142)	-	-	(3,904)
Other finance costs	(331)	(239)	-	-	(570)
Intercompany net finance income/ (expense)	(2,704)	2,704	-	-	-
Intercompany recharges income/ (expense)	(9,679)	10,355	(676)	-	-
Depreciation and software amortisation	(6,160)	(3,697)	(341)	-	(10,198)
Exchange gain/(loss) on foreign currency borrowing	(2,704)	(1)	138	2,398	(169)
Additions of non-current assets	11,252	12,016	947	-	24,215
Total current assets	69,615	427,334	3,277	(385,478)	114,748
Total non-current assets	138,501	347,978	1,898	(194,828)	293,549
Total assets	208,116	775,312	5,175	(580,306)	408,297
Total current liabilities	(102,594)	(13,320)	(14,227)	86,683	(43,458)
Total non-current liabilities	(55,154)	(7,539)	-	-	(62,693)
Total liabilities	(157,748)	(20,859)	(14,227)	86,683	(106,151)

31 July 2013	Australia NZ\$'000	New Zealand NZ\$'000	United Kingdom NZ\$'000	Elimination NZ\$'000	Total NZ\$'000
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)

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 (the Executive Management Team), 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 after tax 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.

	2014 '000	2013 '000
Weighted average number of shares in issue	200,422	200,197
Adjustment for:		
-Share options / performance rights	1,881	1,924
	202,303	202,121

## 29 EARTHQUAKE DISCLOSURES

The ongoing material damage and business interruption insurance claim following the Christchurch earthquake that occurred on 22 February 2011 was settled in full during the year.

In the financial statements:

- ▶ Net proceeds received of \$1,329,000 (2013: \$293,000) has been recognised in the financial statements.
- ▶ 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

As announced on 25 August 2014, Chief Executive Officer Peter Halkett tendered his resignation with effect from 25 November 2014. There is no impact on the current year 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 73, which comprise the balance sheets as at 31 July 2014, the statements of comprehensive income, the 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 2014 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 provider of other assurance services. These services have not impaired our independence as auditors of the Company and the Group.

### ***Opinion***

In our opinion, the financial statements on pages 31 to 73:

- (i) comply with generally accepted accounting practice in New Zealand;
- (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 2014, 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 2014:

- (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 Use of our Report***

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.

Chartered Accountants  
23 September 2014

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	3
110,001	-	120,000	5
120,001	-	130,000	11
130,001	-	140,000	3
140,001	-	150,000	5
150,001	-	160,000	4
160,001	-	170,000	1
170,001	-	180,000	1
180,001	-	190,000	1
190,001	-	200,000	2
200,001	-	210,000	1
220,001	-	230,000	1
230,001	-	240,000	2
240,001	-	250,000	1
260,001	-	270,000	2
290,001	-	300,000	1
300,001	-	310,000	1
350,001	-	360,000	2
630,001	-	640,000	1
1,130,001	-	1,140,000	1

## DISTRIBUTION OF SHAREHOLDERS AND HOLDINGS

	Number of Holders	%	Number of Ordinary Shares	%
1 to 999	872	27%	480,852	0%
1,000 to 4,999	1,403	44%	3,692,782	2%
5,000 to 9,999	512	16%	3,774,496	2%
10,000 to 99,999	362	12%	8,960,808	4%
100,000 and over	41	1%	183,724,531	92%
Total	3,190	100%	200,633,469	100%

The details set out above were as at 8 September 2014.

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 101 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 8 September 2014.

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 8 September 2014, were as follows:

	Ordinary shares	%
Accident Compensation Corporation (13 August 2014)	15,560,506	7.8%
National Australia Bank (30 May 2014)	14,144,444	7.0%
Commonwealth Bank of Australia (3 September 2014)	13,842,744	6.9%
FIL Limited (27 June 2014)	12,720,612	6.3%
Milford Asset Management Limited (5 September 2014)	12,388,077	6.2%
Tribeca Investment Partners (22 July 2014)	11,469,797	5.7%
Fisher Funds Management Limited (18 December 2013)	10,060,547	5.0%

As at 8 September 2014, the Company had 200,633,469 ordinary shares on issue.

**PRINCIPAL SHAREHOLDERS**

The names and holdings of the twenty largest shareholders as at 8 September 2014 were:

	<b>Name</b>	<b>Ordinary Shares</b>	<b>%</b>
1	NEW ZEALAND CENTRAL SECURITIES DEPOSITORY LIMITED	72,474,998	36.12%
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	42,518,296	21.19%
3	NATIONAL NOMINEES LIMITED	29,609,288	14.76%
4	CITICORP NOMINEES PTY LIMITED	13,609,178	6.78%
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,433,519	4.20%
6	BNP PARIBAS NOMS PTY LTD	4,894,996	2.44%
7	CITICORP NOMINEES PTY LIMITED	1,973,730	0.98%
8	BNP PARIBAS NOMS (NZ) LTD	1,230,238	0.61%
9	PETER THOMAS HALKETT	949,560	0.47%
10	NEW ZEALAND DEPOSITORY NOMINEE LIMITED	846,031	0.42%
11	AMP LIFE LIMITED	616,153	0.31%
12	NATIONAL NOMINEES LIMITED	558,699	0.28%
13	RBC INVESTOR SERVICES - AUSTRALIA NOMINEES PTY LIMITED	519,607	0.26%
14	ABN AMRO CLEARING SYDNEY - NOMINEES PTY LTD	502,148	0.25%
15	UBS NOMINEES PTY LTD	340,624	0.17%
16	DAVID ALAN KENDALL & JILL MARJORIE TODD & MARK ARCHIBALD TODD	330,000	0.16%
17	FRANED PTY LIMITED	300,000	0.15%
18	INVESTMENT CUSTODIAL SERVICES LIMITED	294,168	0.15%
19	FNZ CUSTODIANS LIMITED	243,217	0.12%
20	MARK ARCHIBALD TODD	233,259	0.12%

**DIRECTORS' SHAREHOLDINGS**

Directors held interests in the following shares of the Company at 31 July 2014:

Peter Halkett	beneficially owned	999,560
Mark Todd	beneficially owned	563,259
David Kirk	beneficially owned	24,300
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 2013 and 31 July 2014, 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 / (Sold)	Consideration	Date
Peter Halkett	Beneficial	(565,000)	NZD \$3.623	21/10/2013
Peter Halkett <sup>1</sup>	Beneficial	79,042	-	18/12/2013
Mark Todd	Non-beneficial	(43,437)	NZD \$3.484	09/10/2013
Mark Todd <sup>1</sup>	Beneficial	32,648	-	18/12/2013
Mark Todd <sup>2</sup>	Beneficial	160,131	NZD \$2.133	14/05/2014
David Kirk	Beneficial	24,300	AUD \$3.61	08/05/2014

1. Shares were issued as part of the Long Term Incentive Plan (refer note 19 of the financial statements).
2. Shares were issued on exercise of options as part of the Share Option Plan 2009 (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 2014.

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 2014, 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 2014, and those who ceased to hold office during the year ended 31 July 2013, 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



**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 2014 are as follows:

**DAVID KIRK****Chairman of:**

The Hoyts Group  
TradeMe Group Limited  
Food Share Limited  
Standard Media Index Limited

**Director of:**

Bailador Investment Management Pty Limited  
Forsyth Barr Group Limited  
NZPH Limited  
Sydney Medical School Foundation  
Online Ventures Pty Limited (trading as SiteMinder)  
Viocorp International Limited  
David Kirk Pty Limited  
Kirk Family Trust Pty Limited  
Ocean Beach Wilderness Property Limited

**MARK TODD****Director of:**

City Care Limited

**JOHN HARVEY****Chairman of:**

New Zealand Opera Limited

**Director of:**

DNZ Property Fund Limited and subsidiary  
Port Otago Limited and subsidiary  
Heartland Bank Limited  
Balance Agri-Nutrients Limited  
Pomare Investments Limited

**An Advisor to the Board of:**

Resource Coordination Partnership Limited

**SANDRA McPHEE****Director of:**

AGL Energy Limited  
Tourism Australia  
Fairfax Media Limited  
Scentre Group Limited

**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****Partner of:**

Chapman Tripp

**Director of:**

Southbase Construction Limited

**A member of:**

Financial Markets Authority Capital Markets Disclosure  
Consideration Panel

**CHRISTINE CROSS****Director of:**

Sonae Group Plc  
Woolworths Limited  
Plantasjen ASA  
Brambles Limited

**Retail Advisor to:**

Warburg Pincus LLC  
Apax Private Equity

**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**

David Kirk	Chairman, Non-Executive Director
Peter Halkett	Managing Director and Chief Executive Officer (resigning 25 November 2014)
Mark Todd	Finance Director and Chief Operating Officer
John Harvey	Non-Executive Director
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 Operating 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 [kathmandu.com.au](http://kathmandu.com.au)

### VIC

Ballarat  
Bendigo  
Blackburn  
Camberwell  
Chadstone Inner  
Chadstone Outer  
Doncaster  
Emporium  
Fitzroy  
Fountain Gate  
Frankston  
Geelong  
Hampton East  
Highpoint  
Knox  
Melbourne (Bourke Street)  
Moonee Ponds  
Moorabbin Outlet Store  
Northland  
Nunawading Outlet Store  
Prahran  
Richmond  
Shepparton  
Smith Street Outlet Store  
South Wharf DFO Outlet Store  
Southland  
Spencer Street Outlet Store  
The Glen  
Traralgon  
Uni Hill Outlet Store  
Warrnambool

### NSW

Albury  
Birkenhead Point Outlet Store  
Bondi Junction

Castle Towers  
Charlestown  
Chatswood  
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  
Tea Tree  
West Lakes

### ACT

Belconnen  
Canberra Centre  
Canberra Outlet Store  
Woden

### QLD

Brisbane City  
Cairns  
Carindale  
Chermside  
Fortitude Valley  
Hervey Bay  
Indooroopilly  
Jindalee Outlet Store  
Kawana  
Logan  
Mackay  
Pacific Fair (Broadbeach)  
Robina  
Rockhampton  
Southport  
Toowoomba  
Townsville

### TAS

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

### WA

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

### NT

Casuarina

## NEW ZEALAND [kathmandu.co.nz](http://kathmandu.co.nz)

### NORTH ISLAND

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

Otaki Outlet Store  
Palmerston North  
Petone  
Pukekohe  
Rotorua  
St Lukes  
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 Outlet Store  
The Palms  
Timaru  
Tower Junction

## UNITED KINGDOM [kathmandu.co.uk](http://kathmandu.co.uk)

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

This report is printed on paper pulp sourced from sustainably grown and managed forests, using Elemental Chlorine Free (ECF) bleaching and printed with 100% vegetable - based inks.



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ANNUAL REPORT 2014

[kathmanduholdings.com](http://kathmanduholdings.com)