

Kathmandu Holdings Limited
Preliminary Full Year Report
For the year ending 31 July 2014

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Appendix 4E

Kathmandu Holdings Limited

(ARBN 139 836 918)

(Incorporated in New Zealand)

For the year ending 31 July 2014

Reporting Period

Reporting Period: 12 months ending 31 July 2014

Previous Reporting Period: 12 months ending 31 July 2013

Results for Announcement to the Market (all comparisons to the year ended 31 July 2014)	\$NZ'000	Up/Down	Movement %
1. Revenues from ordinary activities	392,918	Up	2.3%
2. Profit from ordinary activities after tax attributable to members	42,152	Down	4.6%
3. Net profit for the period attributable to members	42,152	Down	4.6%

4. Dividends (distribution)	Amount per Security NZ cents	Franked amount per security NZ cents
Interim Dividend per share (paid 17 June 2014)	3.0	3.0
Final Dividend per share (to be paid 21 November 2014)	9.0	9.0

5. The record date for final dividend	10 November 2014
6. For commentary on the results refer to the following Media Announcement.	

Financial Information

The appendix 4E should be read in conjunction with the following consolidated financial statements for the year ended 31 July 2014, specifically:

Statements of financial performance – page 4

Statement of financial position – page 6

Statements of cash flows – page 7

Statement of retained earnings – page 5

Notes to the financial statements – page 8

Dividends – Ordinary Shares

Dividends	Amount per Security NZ cents	Franked amount per security NZ cents
Interim Dividend	3.0	3.0
Final Dividend	9.0	9.0
The record date for determining entitlements to the final dividend		10 November 2014
Final Dividend payment date:		21 November 2014

There is no foreign sourced dividend or distribution included.

Dividend reinvestment plan

Not applicable.

Net Tangible Assets per Security

	2014 NZ \$	2013 NZ \$
Net tangible assets per security	0.32	0.30

Entities over which control has been gained or lost

Control has not been gained or lost in relation to any entity during the period.

Details of associates and joint venture entities

Not applicable.

Other significant information

Not applicable.

Accounting Standards

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).

Commentary on results for the period

Refer to media announcement and consolidated financial statements following.

Information on Audit

The report is based on financial statements which have been audited. The audit report, which is unqualified, is on page 47 of the financial statements.

KATHMANDU HOLDINGS LIMITED (ASX/NZX: KMD)

ASX/NZX/Media Announcement 23 September 2014

Kathmandu Holdings announces FY2014 full year results:

- **Sales NZ\$392.9m, up NZ\$8.9m, +2.3%,**
- **EBIT NZ\$64.3m, up 1.4%,**
- **NPAT NZ\$42.2m, down 4.5%,**
- **Earnings per share 21.0 cps (NZ\$), down 1.1c (NZ\$)**

Final dividend 9.0 cents per share (NZ\$), full year payout 12.0 cents per share (NZ\$).

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced earnings before interest and tax (EBIT) of NZ\$64.3 million, for the year ended 31 July 2014, an increase of NZ\$0.9 million compared with the prior corresponding period. Net profit after tax (NPAT) decreased from NZ\$44.2 million to NZ\$42.2 million for the same period.

RESULTS OVERVIEW

Year ending 31 July 2014	NZ \$m		Growth	
	FY2014	FY2013	NZ \$m	%
Sales	392.9	384.0	8.9	2.3%
Gross Profit	248.1	242.0	6.1	2.5%
EBITDA	74.5	74.0	0.5	0.7%
EBIT	64.3	63.4	0.9	1.4%
NPAT ¹	42.2	44.2	(2.0)	(4.5%)

1. FY2014 NPAT includes NZ\$0.8m (2013: NZ\$3.1m) taxation expense benefit from Australian intercompany loan revaluation.

Kathmandu Holdings Limited Chief Operating Officer, Mark Todd (soon to become acting Chief Executive following the recent resignation of long term CEO Peter Halkett) said it was a satisfactory overall result. "Given the reduced customer

demand experienced during our key selling period in June, and the NZ\$5.8m adverse impact of exchange rates, a small increase in EBIT was a good performance.”

For the full year, same store sales growth was 4.2% at comparable exchange rates (-2.7% at actual exchange rates). The company opened 15 new permanent stores; ten of these in the second half. Online sales grew by over 35% at comparable exchange rates and contributed 5.1% of total sales.

SALES, STORE NUMBERS AND GROSS PROFIT MARGIN

Year ending 31 July 2014	NZ \$m FY2014	% of Total	Total sales growth %*¹	Same store growth %*¹	FY2014 # new stores
Sales – Australia	247.3	62.9%	14.8%	6.9%	14
Sales – New Zealand	141.0	35.9%	2.9%	(0.1%)	1
Sales – United Kingdom	4.6	1.2%	(22.6%)	12.7%	0
Total	392.9	100.0%	2.3%	4.2%	15

¹ Calculated on local currency sales results (not affected by year-on-year exchange rate variation)

Australia performed strongly, delivering good same store sales growth throughout the year. New Zealand same store sales were generally ahead of FY2013 levels, apart from a substantial downturn during the key winter trading period in June.

The United Kingdom also delivered same store sales growth. The overall sales reduction in that market reflected the first period of trading after closure of loss making stores.

Permanent stores open 31 July 2014	FY2014	FY2013
Australia	100	87
New Zealand	45	44
United Kingdom	4	5
Total Group	149	136

In the second half year Kathmandu opened ten new stores (following five in the first half):

- Australia: Melbourne (Chadstone, Emporium), Regional VIC (Shepparton, Traralgon), Brisbane (Indooroopilly), Regional QLD (Rockhampton, Hervey Bay), Perth (Belmont), Regional WA (Bunbury), Regional NSW (Charlestown).

During the year Kathmandu closed one store in Australia (Chatswood Outlet, Sydney) and one store in the United Kingdom (White City, London) as part of the re-organisation of that business.

During the year four stores were relocated; Napier, Onehunga and Wellington Outlet in New Zealand, Pacific Fair in Australia. Major refurbishments were completed in Brisbane CBD, Petone (Wellington), Queen St (Auckland) and Spitalfields (London) stores.

In the first half of FY2015, eight new stores are already confirmed to open, all in Australia:

- Burwood, Miranda (Sydney)
- Byron Bay, (NSW)
- Mt Gravatt (Brisbane)
- Essendon DFO, Watergardens (Melbourne)
- Cockburn, Joondalup (Perth)

Sales growth in the online channel has continued strongly. “We expect more sales growth as we invest in internal capability and introduce more customers to the brand globally,” said Mr Todd. He further commented that “we will achieve this through our ongoing focus on increasing Kathmandu brand awareness and growing Summit Club membership in both existing and new global markets. This will support online sales growth via our own platform and web-based marketplaces such as NEXT and Amazon, the first marketplaces we traded on successfully in the United Kingdom during FY2014. We are expanding our product offering and entering more online marketplace sites to generate further international sales.”

Year ending 31 July 2014	FY2014	FY2013
Gross margin %	63.1%	63.0%

Gross margin remained within Kathmandu's target range of 62% to 64%. Margins remained unchanged in Australia and improved in New Zealand (up 50bps). In the United Kingdom, margins were lower than FY2013 by 230 bps due to the impact of clearance activity associated with store closures.

OPERATING COSTS

Operating Expenses (excluding depreciation)	NZ \$m & % of Sales	
	FY2014	FY2013
Rent	44.5m	43.8m
<i>% of sales</i>	<i>11.3%</i>	<i>11.4%</i>
Other operating costs	130.5m	124.5m
<i>% of sales</i>	<i>33.2%</i>	<i>32.4%</i>
Total	175.0m	168.3m
<i>% of sales</i>	<i>44.5%</i>	<i>43.8%</i>

Kathmandu's operating expenses increased by 70 bps as a % of sales. Expenses as a % of sales were adversely impacted by sales being below expectations. Following increased promotional activity in the second half, advertising increased as a % of sales. Continued investment in internal capability to support increased online business and systems development also drove operating cost increases.

"Operating cost leverage remains a key priority for Kathmandu, in tandem with investment for growth. We are confident Kathmandu will achieve further efficiency improvements in the future as we transition onto the Microsoft Dynamics AX platform, improve core systems and realign supply chain facilities and technology, both in New Zealand and Australia," said Mr. Todd.

EBIT margin decreased from 16.5% to 16.4% of sales. Earnings per share decreased by 5.0% to 21.0 cents per share (FY2013: 22.1 cents per share).

OTHER FINANCIAL INFORMATION

Year ending 31 July 2014	NZ \$m	
	FY2014	FY2013
Capital Expenditure	24.2	17.4
Operating Cashflow	31.2	45.7
Inventories	103.8	80.0
Net Debt	55.3	40.2
Net Debt : Net Debt + Equity	15.5%	12.0%
Interim Dividend (cents per share)	3 cents	3 cents
Final Dividend proposed (cents per share)	9 cents	9 cents

The increase in capital expenditure year on year was primarily investment in new core systems built upon the Microsoft Dynamics AX platform. Also more store relocation and refurbishment projects were completed in FY2014 than in the prior year.

Total inventories have increased by \$23.8m (29.8%). The growth in operating inventory required to support an increased number of stores and investment in higher price point categories for sale throughout winter contributed to this increase. One month after balance date, the year on year percentage increase in inventory on a stock per store basis has reduced from 18.5% to 11.8%, as the implementation of new forecasting and planning software takes effect.

Total net debt at 31 July increased by NZ\$15.1m (37.6%) on the previous year as a result of reduced operating cash flow and increased capital expenditure. The ratio of net debt to net debt plus equity at 31 July increased to 15.5%.

FINAL DIVIDEND

Kathmandu confirms that a final dividend of NZ 9.0 cents will be paid, bringing the total dividend payout for FY2014 to 12.0 cents (FY2013: 12.0 cents). The dividend will be fully imputed for New Zealand shareholders and fully franked for Australian shareholders. A supplementary dividend of 0.15882 cents will be paid to non-resident shareholders.

FUTURE OUTLOOK AND INVESTMENT IN GROWTH

Chairman David Kirk confirmed that Kathmandu's key growth strategies remain robust and sustainable. "Kathmandu has done well in 2014. In particular our performance in Australia of 6.9% same stores sale growth and 14.8% total sales growth in Australian dollars is very pleasing. We expect similar sales growth in the year ahead."

Mr. Kirk highlighted the commitment now made by the Kathmandu Board to invest in the brand's international growth aspirations. "Given this strong position and the scale of our business, now is the right time to begin taking Kathmandu to the world. In FY2015 we will invest an incremental NZ\$5m in the United Kingdom and Europe to build our brand, acquire Summit Club members and grow online sales. We are excited to be beginning a new stage in Kathmandu's development," said Mr. Kirk.

He concluded by saying that "providing there is no deterioration in economic conditions we expect improved earnings from the Australasian business in FY2015, however the overall outcome will be impacted by the UK investment."

For further information please contact:

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KATHMANDU HOLDINGS LIMITED

FINANCIAL STATEMENTS

For the year ended 31 July 2014

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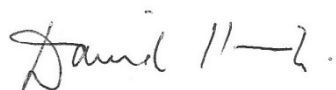
**DIRECTORS' APPROVAL OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2014**

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 4 to 46.



23 September 2014

David Kirk

Date



23 September 2014

Mark Todd

Date

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)
Profit before income tax		59,663	58,982	22,427	18,175
Income tax (expense)/benefit	5	(17,511)	(14,808)	396	(45)
Profit after income tax		42,152	44,174	22,823	18,130
Comprehensive Income that may be recycled to the Income Statement:					
Movement in cash flow hedge reserve	20	(7,122)	8,376	-	-
Movement in foreign currency translation reserve	20	(3,794)	(18,186)	-	-
Other comprehensive income for the year, net of tax		(10,916)	(9,810)	-	-
Total comprehensive income for the year attributable to shareholders		31,236	34,364	22,823	18,130
Basic earnings per share	28	21.0cps	22.1cps		
Diluted earnings per share	28	20.8cps	21.9cps		
Weighted average basic ordinary shares outstanding ('000)	28	200,422	200,197		
Weighted average diluted ordinary shares outstanding ('000)	28	202,303	202,121		

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JULY 2014**

Group	Share Capital	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Share Based Payments Reserve	Retained Earnings	Total Equity
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Balance as at 31 July 2012	197,298	(3,309)	7,628	739	77,278	279,634
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
Balance as at 31 July 2013	197,370	5,067	(10,558)	823	101,487	294,189
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
Balance as at 31 July 2014	198,228	(2,055)	(14,352)	733	119,592	302,146
Parent	Share Capital	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Share Based Payments Reserve	Retained Earnings	Total Equity
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Balance as at 31 July 2012	422,386	-	-	739	(15,654)	407,471
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
Balance as at 31 July 2013	422,458	-	-	823	(17,489)	405,792
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
Balance as at 31 July 2014	423,316	-	-	733	(18,713)	405,336

**BALANCE SHEETS
AS AT 31 JULY 2014**

	Note	Group		Parent	
		2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
ASSETS					
Current assets					
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
Total current assets		114,748	93,931	87,177	84,794
Non-current assets					
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
Total non-current assets		293,549	282,286	321,245	321,255
Total assets		408,297	376,217	408,422	406,049
LIABILITIES					
Current liabilities					
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	-	-
Total current liabilities		43,458	38,820	3,086	257
Non-current liabilities					
Derivative financial instruments	10	209	628	-	-
Interest bearing liabilities	17	62,484	42,580	-	-
Total non-current liabilities		62,693	43,208	-	-
Total liabilities		106,151	82,028	3,086	257
Net assets		302,146	294,189	405,336	405,792
EQUITY					
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)
Total equity		302,146	294,189	405,336	405,792

**STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 JULY 2014**

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

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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:

Leasehold Improvements	8 – 50 %
Office, Plant and Equipment	8 – 84 %
Furniture and Fittings	10 – 60 %
Computer Equipment	10 – 67%
Motor Vehicles	15 – 30%

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

Capital work in progress is not depreciated until available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

(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
Profit before income tax includes the following specific (income) and expenses:				
Income				
Dividends received	-	-	(24,047)	(20,018)
Expenses				
<u>Depreciation</u>				
- 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	-	-
<u>Amortisation</u>				
- 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
<u>Finance Costs</u>				
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
	4,593	4,407	(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

	Group		Parent	
	2014	2013	2014	2013
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Income statement				
Current income tax charge	16,846	18,826	(407)	62
Deferred income tax charge / (credit) (refer note 15)	665	(4,018)	11	(17)
Income tax charge / (credit) reported in income statement	17,511	14,808	(396)	45
Reconciliation of effective tax charge				
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
Income tax charge / (credit) reported in income statement	17,511	14,808	(396)	45

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

	Group		Parent	
	2014	2013	2014	2013
	NZ\$'000	NZ\$'000	NZ\$'000	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)	-	-
Total other comprehensive income after tax	(10,916)	(9,810)	-	-
Current tax	670	2,929	-	-
Deferred tax	2,983	(3,219)	-	-
Total tax credit / (charge) on other comprehensive income	3,653	(290)	-	-

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.

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Imputation credits

	Group		Parent	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
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

	Group		Parent	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Profit after taxation	42,152	44,174	22,823	18,130
<i>Movement in working capital:</i>				
(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
<i>Add non cash items:</i>				
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
Cash inflow from operating activities	31,195	45,676	22,826	19,065

7 Cash and cash equivalents

	Group		Parent	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Cash on hand	169	165	-	-
Cash at bank	7,009	2,166	9	5
Short term deposits	14	14	-	-
	<u>7,192</u>	<u>2,345</u>	<u>9</u>	<u>5</u>

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	-	-	-
	<u>7,192</u>	<u>2,345</u>	<u>9</u>	<u>5</u>

8 Trade and other receivables

	Group		Parent	
	2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
Trade receivables	211	125	-	-
Sundry debtors and prepayments	3,568	3,543	262	256
	<u>3,779</u>	<u>3,668</u>	<u>262</u>	<u>256</u>

Bad and doubtful trade receivables

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	-	-
	<u>3,779</u>	<u>3,668</u>	<u>262</u>	<u>256</u>

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.

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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
	<u>4,011</u>	<u>4,520</u>	<u>211</u>	<u>209</u>

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

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

2014	Short-Term Benefits			Post-employment benefits	Share based payments				Total	Performance related
	Cash	Cash	Non-	Super-	Share	Performance	Equity			
	Salary and fees	bonus	Monetary benefits	annuation	Options	Rights	related			
	\$	\$	\$	\$	\$	\$	%	\$	%	
Non-Executive Directors										
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%	
Total Non-Executive Directors	725,099	-	-	-	-	-	0.0%	725,099	0.0%	
Executive Directors										
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%	
Total Executive Directors	1,377,706	136,318	14,546	39,123	-	203,609	11.5%	1,771,302	7.7%	
Other Key Management Personnel										
	1,949,221	167,539	31,676	83,577	-	7,883	0.4%	2,239,896	7.5%	
Total	4,052,026	303,857	46,222	122,700	-	211,492	4.5%	4,736,297	6.4%	

2013	Short-Term Benefits			Post-employment benefits	Share based payments				Total	Performance related
	Cash	Cash	Non-	Super-	Share	Performance	Equity			
	Salary and fees	bonus	Monetary benefits	annuation	Options	Rights	related			
	\$	\$	\$	\$	\$	\$	%	\$	%	
Non-Executive Directors										
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%	
Total Non-Executive Directors	716,627	-	-	-	-	-	0.0%	716,627	0.0%	
Executive Directors										
Peter Halkett ¹	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%	
Total Executive Directors	1,315,146	180,000	684,549	56,999	4,746	176,485	7.5%	2,417,925	7.4%	
Other Key Management Personnel										
	1,686,329	304,502	18,323	65,475	1,769	26,006	1.3%	2,102,404	14.5%	
Total	3,718,102	484,502	702,872	122,474	6,515	202,491	4.0%	5,236,956	9.3%	

1. 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
Asset				
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	-	-
Liabilities				
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
Year ended 31 July 2013						
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
As at 31 July 2013						
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
Year ended 31 July 2014						
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
As at 31 July 2014						
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
Year ended 31 July 2013				
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
As at 31 July 2013				
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
Year ended 31 July 2014				
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
As at 31 July 2014				
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

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Parent	Goodwill NZ\$'000	Brand NZ\$'000	Software NZ\$'000	Total NZ\$'000
Year ended 31 July 2013				
Opening net book value	-	-	-	-
Additions	-	-	7	7
Disposals	-	-	-	-
Amortisation	-	-	(3)	(3)
Exchange differences	-	-	-	-
Closing net book value	-	-	4	4
As at 31 July 2013				
Cost	-	-	7	7
Accumulated amortisation	-	-	(3)	(3)
Closing net book value	-	-	4	4
Year ended 31 July 2014				
Opening net book value	-	-	4	4
Additions	-	-	7	7
Disposals	-	-	-	-
Amortisation	-	-	(6)	(6)
Exchange differences	-	-	-	-
Closing net book value	-	-	5	5
As at 31 July 2014				
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:

Group	Goodwill		Brand	
	2014	2013	2014	2013
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
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	2013
	NZ\$	NZ\$
Milford Group Holdings Limited	321,233,808	321,233,808
Kathmandu Limited	-	-
Kathmandu Pty Limited	-	-
Kathmandu (U.K.) Limited	-	-
	<u>321,233,808</u>	<u>321,233,808</u>

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	Employee obligations	Other timing		Reserves	Total
	NZ\$'000	NZ\$'000	Losses	differences	NZ\$'000	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	Employee obligations	Other timing		Reserves	Total
	NZ\$'000	NZ\$'000	Losses	differences	NZ\$'000	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	2013	2014	2013
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Deferred taxation assets:				
- 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
Deferred taxation liabilities:				
- 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	2013	2014	2013
	NZ\$'000	NZ\$'000	NZ\$'000	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:

	Group		Parent	
	2014	2013	2014	2013
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
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	2013	2014	2013
	NZ\$'000	NZ\$'000	NZ\$'000	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	2013	2014	2013
	NZ\$'000	NZ\$'000	NZ\$'000	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
Number of issued shares	Group		Parent	
	2014	2013	2014	2013
	'000	'000	'000	'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:

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

A 50% Net Profit after Tax dividend 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
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 50 th percentile	0%
50 th percentile	50%
51 st – 74 th percentile	50% + 2% for each percentile above the 50 th
75 th percentile or above	100%

The TSR performance is calculated for the following performance periods:

Tranche	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.

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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	Granted during the year	Vested during the year	Lapsed during the year	Balance at the end of year
	Number	Number	Number	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.
- all of these rights have lapsed

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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
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**

		Group		Parent	
		2014 NZ\$'000	2013 NZ\$'000	2014 NZ\$'000	2013 NZ\$'000
(i) Cash flow hedging reserve					
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	-	-
(ii) Foreign currency translation reserve					
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)	-	-
(iii) Share based payments reserve					
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
Total Reserves		(15,674)	(4,668)	733	823

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*	7	19	-	-
Total remuneration for audit services	163	168	78	106

* 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	-	-
	4,555	1,199	-	-

(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 ¹	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).

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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
31 July 2014									
Derivative financial instruments (asset) / liability	3,060	(572)	852	572	(885)	-	(12,588)	-	10,299
Financial assets									
Cash	7,192	(52)	-	52	-	445	-	(364)	-
Trade receivables and sundry debtors	1,572	-	-	-	-	(112)	-	91	-
		(52)	-	52	-	333	-	(273)	-
Financial liabilities									
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
Total increase / (decrease)		-	852	-	(885)	(1,941)	(16,984)	1,588	13,895

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
31 July 2013									
Derivative financial instruments (asset) / liability	(7,228)	(449)	735	449	(761)	-	(12,036)	-	9,847
Financial assets									
Cash	2,345	(17)	-	17	-	145	-	(119)	-
Trade receivables and sundry debtors	1,008	-	-	-	-	(17)	-	14	-
		(17)	-	17	-	128	-	(105)	-
Financial liabilities									
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
Total increase / (decrease)		(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

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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:

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

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.

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	Less than 1 year NZ\$'000	Between 1 and 2 years NZ\$'000	Between 2 and 5 years NZ\$'000	Over 5 years NZ\$'000
Group 2014				
Trade and other payables	37,489	-	-	-
Guarantees	12,361	-	-	-
Borrowings	2,295	63,344	-	-
	52,145	63,344	-	-
Group 2013				
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.

	Less than 1 year NZ\$'000	Between 1 and 2 years NZ\$'000	Between 2 and 5 years NZ\$'000
At 31 July 2014			
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)
At 31 July 2013			
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
Group				
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
Parent				
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

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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					<u>42,152</u>
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	<u>208,116</u>	<u>775,312</u>	<u>5,175</u>	<u>(580,306)</u>	<u>408,297</u>
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	<u>(157,748)</u>	<u>(20,859)</u>	<u>(14,227)</u>	<u>86,683</u>	<u>(106,151)</u>

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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					<u>44,174</u>
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	<u>187,342</u>	<u>759,400</u>	<u>4,198</u>	<u>(574,723)</u>	<u>376,217</u>
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	<u>(126,865)</u>	<u>(26,429)</u>	<u>(9,834)</u>	<u>81,100</u>	<u>(82,028)</u>

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

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) have 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 4 to 46, 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.



Independent Auditors' Report

Kathmandu Holdings Limited

Opinion

In our opinion, the financial statements on pages 4 to 46:

- (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.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants
23 September 2014

Christchurch