

**Kathmandu Holdings Limited**  
**New Zealand Stock Exchange Listing Rules**  
**Disclosure**  
**Full Year Report**  
  
**For the year ending 31 July 2011**

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# Appendix 1

## Kathmandu Holdings Limited

### Results for announcement to the market

Reporting Period: 12 months ending 31 July 2011  
Previous Reporting Period: 12 months ending 31 July 2010

	Amount (000's)	Percentage change
Revenues from ordinary activities	\$NZ 306,143	24.5%
Profit from ordinary activities after tax attributable to security holder	\$NZ 39,066	54.8%
Net profit attributable to security holders	\$NZ 39,066	316.2%

For commentary on the results please refer to the Media Announcement attached.

Dividends (NZ \$)	Amount per security	Imputed amount per security
Interim Dividend (paid 7 April 2011)	\$NZ 0.03	\$NZ 0.03
Final Dividend	\$NZ 0.07	\$NZ 0.07

Record Date for Final Dividend	14 November 2011
Payment date for Final Dividend	24 November 2011

#### Financial Information

The appendix 1 should be read in conjunction with the consolidated financial statements for the year ended 31 July 2011.

	2011 \$	2010 \$
Net tangible assets per security	0.06	(0.01)

#### 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).

#### Information on Audit or Review

The report is based on financial statements which have been audited. The audit report, which is unqualified, is on page 48 of the financial statements.

#### Loss/Gain of Control over Entities having Material Effect

Kathmandu Holdings Limited does not have any interests in entities which are not controlled entities, nor does it have any interests in associate or joint venture entities.

**KATHMANDU HOLDINGS LIMITED**



**ASX/NZX/Media Announcement**

**21 September 2011**

**Kathmandu Holdings Ltd announces record sales and earnings result for FY2011:**

**NZ\$ Denominated Result**

- Sales up 24.5% to \$306.1m,
- EBIT up 32.0% to \$64.0m,
- NPAT up \$13.9m (55%) to \$39.1m.

**Final Dividend 7.0 cents per share, full year payout of 10.0 cents per share.**

Kathmandu Holdings Limited (ASX/NZX:KMD) today announced a 32.0% increase in Earnings before interest and tax (EBIT) to NZ\$64.0 million. Net profit after tax (NPAT), increased from NZ\$25.2 million last year (excluding the costs associated with the company's IPO in November 2009) to NZ\$39.1 million for the year ended 31 July 2011.

Kathmandu Holdings Limited provided a trading update to the market in early August that previewed this year's substantial lift in sales and profit. "We have achieved double digit same store sales growth in both Australia and New Zealand, and improved margins despite the well publicised difficult economic environment and the resulting impact on consumer demand in all our markets", said Kathmandu Chief Executive Officer Peter Halkett. "Our 14 new stores opened during the year have all performed very well and we see continued growth opportunities for Kathmandu as we expand our retail footprint and introduce new products and an updated brand identity to the market over the next year," Peter Halkett said.

## RESULTS OVERVIEW

Full Year Ending 31 July 2011	NZ \$m		Growth	
	FY11	FY10 <sup>1</sup>	NZ \$m	%
Sales	306.1	245.8	60.3	24.5%
EBITDA	71.4	54.4	17.0	31.3%
EBIT	64.0	48.5	15.5	32.0%
NPAT (last year before IPO costs net of tax)	39.1	25.2	13.9	55.2%
NPAT	39.1	9.4	29.7	316.0%

<sup>1</sup>Excluding IPO costs

Key highlights of the FY2011 results include:

- Record sales of \$306.1m, a 24.5% increase over FY10,
- Same store sales growth of 15.7% overall,
- 100<sup>th</sup> store opened, total stores now 111,
- 14 new stores opened, 11 in Australia and 3 in New Zealand.

Peter Halkett said “Trading performance in Australia and New Zealand was strong across most of the year and our key promotional activity delivered volume growth at better margins in both countries.”

## **SALES, STORE NUMBERS AND GROSS PROFIT MARGIN**

<b>Full Year Ending 31 July 2011</b>	<b>NZ \$m FY11</b>	<b>% of Total</b>	<b>Total Sales Growth %</b>	<b>Same store<sup>1</sup> Growth %</b>	<b>Number of New Stores</b>
Sales - Australia	187.6	61.3%	32.2%	14.4%	11
Sales - New Zealand	110.3	36.0%	17.0%	12.3%	3
Sales - United Kingdom	8.2	2.7%	-14.6%	-7.1%	0
<b>Total</b>	<b>306.1</b>	<b>38.7%</b>	<b>24.5%</b>	<b>15.7%</b>	<b>14</b>

<sup>1</sup> Same store sales growth 12.9% at constant exchange rates

Peter Halkett noted that “As we commented in the trading update last month, we made a substantial investment in inventory in FY11, which was a key factor in Kathmandu’s sales growth throughout the year. We were able to meet demand throughout our three key promotional periods, whereas in the previous year we were challenged by limited stock availability, particularly during our Winter sale. We also benefited from colder weather patterns through the second half year, especially in Australia for our Easter sale”.

“The over 30 per cent increase in Summit Club membership numbers, and the consistent revenue growth Kathmandu achieved not just in the key promotional periods, but across the whole year, highlighted the growing popularity of the

Kathmandu brand and the appeal of our ever expanding product range”, Peter Halkett said.

During most of 2011 the A\$ and NZ\$ have been at record highs against the US\$, with the A\$ in particular being above parity for nearly all of the calendar year to date. By comparison, in the U.K. there was the combination of a weak economy which suppressed sales and a weak currency. Peter Halkett noted the currency impact had been helpful to the trading performance in the second half year. “The strong currencies had a double benefit. Not only did they assist to minimise that unhedged portion of our cost of imports, more importantly they encouraged a large increase in Australian and New Zealand offshore travel, and of course many of those people are Kathmandu customers” Peter Halkett said. “So whilst it is clear that consumers have generally been reducing debt and are very cost conscious, we believe those who enjoy outdoor activity and travel have continued to spend money on these pursuits, and have seen the past year as an opportunity to get good value from that spend.”

<b>Stores Open 31 July</b>	<b>FY11</b>	<b>FY10</b>
Australia	66	55
New Zealand	39	36
United Kingdom	6	6
Total Group	111	97

Kathmandu opened eleven new stores in the second half year (following three in the first half year). The stores opened in the second half were:

- Australia: Whitford City (WA), Belconnen (Canberra), Southport, Toowoomba, Orange, Cairns, Wagga Wagga, and Southland (Melbourne).
- New Zealand: Papanui, Whakatane and Ashburton.

The Christchurch earthquake event has resulted in the closure for an indefinite period, of Kathmandu's central city Cashel Street store, which is located close to major Christchurch office and hotel tower blocks currently being demolished. In FY12 four new stores are already confirmed to open, two each in New Zealand and Australia, and four existing stores in major cities are in the process of being re-located to new and larger premises. Peter Halkett confirmed that "most of this year's targeted fifteen new stores to be opened will again be in Australia." He also advised that "whilst the retail and general economic environment remains generally negative and uncertain, no further stores are planned for the U.K."

<b>Full Year Ended 31 July 2011</b>	<b>ACTUAL FY11</b>	<b>ACTUAL FY10</b>
Gross profit margin %	65.5%	63.2%

Gross profit margin was up 230bps on FY10, reflecting sales growth primarily coming from apparel categories with associated higher margins. An increasing share (now over 61%) of total sales is made in Australia where Kathmandu earns higher gross margins. Gross margins increased in both Australia and New Zealand in FY11.

## **OPERATING COSTS**

<b>Operating Expenses excluding depreciation and IPO costs</b>	<b>NZ \$m &amp; % of Sales</b>	
	<b>FY11</b>	<b>FY10</b>
Rent	31.9m	25.6m
<i>% of sales</i>	<i>10.4%</i>	<i>10.4%</i>
Other Operating costs	97.3m	75.3m
<i>% of sales</i>	<i>31.8%</i>	<i>30.6%</i>
<b>Total</b>	<b>129.2m</b>	<b>100.9m</b>
<i>% of sales</i>	<i>42.2%</i>	<i>41.0%</i>

Kathmandu's operating expenses increased by 120 bps as a % of sales, reflecting increased supply chain expenses due to stock volumes, the full year impact of listed company costs, and expenditure on the brand refresh project. This year's result also

included the cost of management bonuses linked to profit targets, whereas most profit-based incentives were not achieved last year.

The overall result of the strong sales and gross profit margin performance was an increase in EBITDA margin to 23.3% from 22.1% in FY10. EBIT margin similarly increased to 20.9% from 19.7% (FY10 result excludes IPO costs).

## OTHER FINANCIAL INFORMATION

Full Year Ended 31 July 2011	FY11	FY10
Operating Cashflow	39.8	32.6
Capital Expenditure	(11.9)	(13.6)
	27.9	19.0
Inventories	54.0	37.4
Net Debt (including cash)	42.9	49.3
Net Debt: Net Debt + Equity	14.4%	17.1%
Interim Dividend paid (cents per share)	3 cents	Nil
Final Dividend proposed (cents per share)	7 cents	7 cents

Capital expenditure was lower than FY10 due to the timing of significant refurbishment / relocation projects pending the now planned rollout of the new brand identity. Peter Halkett commented that the effective delivery of the benefits from Kathmandu's brand refresh project has to be accompanied by an associated increased investment in the refurbishment of the Kathmandu retail network. "We are very positive about the benefits to come from the new Kathmandu brand identity, and in conjunction with the re-branding of our stores we are committed to a substantial upgrade programme. This involves also re-locating a number of our stores to larger and higher profile sites" Peter Halkett said.



Total inventories increased by NZ\$16.6 million, reflecting the planned increase in product range, an overall lift in stock investment and growth in store numbers. On a per store basis inventory investment increased by 26% on last year, but was up only 1% on the level in FY09. Peter Halkett commented that “The increased investment in stock ensured that we were able to take full advantage of the growth in demand that we were experiencing, particularly in the second half of FY11.”

Operating and Investing cash flow excluding financing costs increased by NZ\$8.9 million for the year, reflecting the growth in profit derived from the increased investment in inventories.

## **DIVIDEND**

The Board advises the final dividend for FY11 will be 7 cents per share, bringing the total dividend payout for FY11 to 10 cents per share. The final dividend is 100% imputed for New Zealand shareholders and fully franked for Australian shareholders. Chairman James Strong said that “this payout, a ratio of 51% of NPAT, is supported by our strong operating cashflows and consistent with the range we are targeting over the medium term in conjunction with our capital investment programme.”

## **FUTURE YEAR OUTLOOK**

Summing up Kathmandu's prospects for the year ahead, Peter Halkett said Kathmandu was confident in its business model, brand and proven growth strategies.

“The current retail environment, and cost pressures both domestically and internationally create a volatile and unpredictable environment. However, given our market position and brand strength we remain well placed for further growth in FY12.

This will be underpinned by:

- Our ongoing new store rollout programme, 15 new stores targeted in FY12, 4 new sites are already confirmed;
- Continued product range growth and development;
- Our new Brand identity and the associated advertising collateral now released to the market, and in association with this;
- The programme of re-furbishing and re-locating existing stores which in FY12 will involve a number of major city stores;
- Further enhancements and profile for our online business.”

Peter Halkett concluded his assessment of Kathmandu’s outlook stating “our key growth strategies are working and delivered solid sales and profit growth this year despite a tough environment, so FY12 is really about more of the same”.

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# **KATHMANDU HOLDINGS LIMITED**

## **FINANCIAL STATEMENTS** **For the year ended 31 July 2011**

# KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2011

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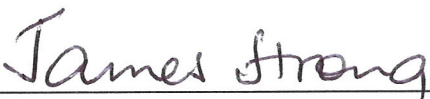
**DIRECTORS' APPROVAL OF FINANCIAL STATEMENTS  
FOR THE YEAR ENDING 31 JULY 2011**

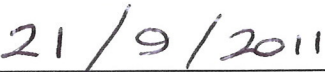
**Authorisation for Issue**

The Board of Directors authorised the issue of these Financial Statements on 21 September 2011.

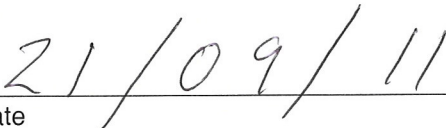
**Approval by Directors**

The Directors are pleased to present the Financial Statements of Kathmandu Holdings Limited for the year ending 31 July 2011 on pages 4 to 46.

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Date

For and on behalf of the Board of Directors

**INCOME STATEMENTS  
FOR THE YEAR ENDED 31 JULY 2011**

	Note	Group		Parent	
		2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
Sales		306,143	245,812	-	-
Cost of sales		(105,560)	(90,523)	-	-
Gross profit		200,583	155,289	-	-
Other income		-	-	20,341	-
Selling expenses		(94,812)	(77,556)	-	-
Administration and general expenses		(41,751)	(29,278)	(1,868)	(1,235)
	4	64,020	48,455	18,473	(1,235)
Finance income		236	2,277	49	2
Finance expenses		(7,039)	(11,934)	-	-
Finance costs - net	4	(6,803)	(9,657)	49	2
<b>Profit before income tax and costs associated with IPO</b>		57,217	38,798	18,522	(1,233)
Costs associated with IPO	5	-	(16,834)	-	(11,572)
<b>Profit / (loss) before income tax</b>		57,217	21,964	18,522	(12,805)
Income tax (expense)/benefit	6	(18,151)	(12,577)	(106)	446
<b>Profit / (loss) after income tax</b>		39,066	9,387	18,416	(12,359)
<b>Basic earnings per share</b>		19.5cps	0.3cps		
<b>Diluted earnings per share</b>		19.2cps	0.3cps		
<b>Weighted average basic ordinary shares outstanding ('000)</b>	30	200,000	2,754,829		
<b>Weighted average diluted ordinary shares outstanding ('000)</b>	30	203,437	2,755,608		

**STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 JULY 2011**

	Note	Group		Parent	
		2011	2010	2011	2010
		NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
<b>Profit / (loss) after tax</b>		39,066	9,387	18,416	(12,359)
Movement in cash flow hedge reserve	22	(5,055)	(2,580)	-	-
Movement in foreign currency translation reserve	22	1,409	(1,515)	-	-
<b>Other comprehensive income for the year, net of tax</b>		(3,646)	(4,095)	-	-
<b>Total comprehensive income for the year attributable to shareholders</b>		35,420	5,292	18,416	(12,359)

## STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JULY 2011

Group	Share	Cash Flow	Foreign	Employee	Retained	Total
	Capital	Hedge	Currency	Share		
	NZ\$'000	Reserve	Translation	Option	Earnings	Equity
	NZ\$'000	NZ\$'000	Reserve	Reserve	NZ\$'000	NZ\$'000
<b>Balance as at 31 July 2009</b>	<b>96,146</b>	<b>(1,420)</b>	<b>3,995</b>	-	<b>33,965</b>	<b>132,686</b>
Total comprehensive income and expense	-	(2,580)	(1,515)	-	9,387	5,292
Issue of share capital	100,903	-	-	-	-	100,903
Movement in employee share option reserve	-	-	-	246	-	246
<b>Balance as at 31 July 2010</b>	<b>197,049</b>	<b>(4,000)</b>	<b>2,480</b>	<b>246</b>	<b>43,352</b>	<b>239,127</b>
Total comprehensive income and expense	-	(5,055)	1,409	-	39,066	35,420
Dividends paid	-	-	-	-	(20,000)	(20,000)
Movement in employee share option reserve	-	-	-	379	-	379
<b>Balance as at 31 July 2011</b>	<b>197,049</b>	<b>(9,055)</b>	<b>3,889</b>	<b>625</b>	<b>62,418</b>	<b>254,926</b>

Parent	Share	Cash Flow	Foreign	Employee	Retained	Total
	Capital	Hedge	Currency	Share		
	NZ\$'000	Reserve	Translation	Option	Earnings	Equity
	NZ\$'000	NZ\$'000	Reserve	Reserve	NZ\$'000	NZ\$'000
<b>Balance as at 31 July 2009</b>	-	-	-	-	-	-
Total comprehensive income and expense	-	-	-	-	(12,359)	(12,359)
Issue of share capital	422,137	-	-	-	-	422,137
Movement in employee share option reserve	-	-	-	246	-	246
<b>Balance as at 31 July 2010</b>	<b>422,137</b>	-	-	<b>246</b>	<b>(12,359)</b>	<b>410,024</b>
Total comprehensive income and expense	-	-	-	-	18,416	18,416
Dividends paid	-	-	-	-	(20,000)	(20,000)
Movement in employee share option reserve	-	-	-	379	-	379
<b>Balance as at 31 July 2011</b>	<b>422,137</b>	-	-	<b>625</b>	<b>(13,943)</b>	<b>408,819</b>



**BALANCE SHEETS  
AS AT 31 JULY 2011**

	Note	Group		Parent	
		2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	8	3,574	4,736	5	6
Trade and other receivables	9	2,339	3,903	192	181
Related party receivable	10	-	-	84,216	88,225
Derivative financial instruments	11	2	-	-	-
Inventories	12	54,001	37,416	-	-
Current tax assets		-	-	3,214	1
<b>Total current assets</b>		<b>59,916</b>	<b>46,055</b>	<b>87,627</b>	<b>88,413</b>
<b>Non-current assets</b>					
Property, plant and equipment	13	32,822	28,018	-	-
Intangible assets	14	243,685	241,825	-	-
Derivative financial instruments	11	-	44	-	-
Investment in subsidiaries	15	-	-	321,234	321,234
Deferred tax	16	3,467	3,472	-	445
<b>Total non-current assets</b>		<b>279,974</b>	<b>273,359</b>	<b>321,234</b>	<b>321,679</b>
<b>Total assets</b>		<b>339,890</b>	<b>319,414</b>	<b>408,861</b>	<b>410,092</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	17	21,012	16,891	42	68
Derivative financial instruments	11	10,505	4,819	-	-
Current tax liabilities		6,666	4,297	-	-
<b>Total current liabilities</b>		<b>38,183</b>	<b>26,007</b>	<b>42</b>	<b>68</b>
<b>Non-current liabilities</b>					
Derivative financial instruments	11	301	315	-	-
Interest bearing liabilities	18	46,480	53,965	-	-
<b>Total non-current liabilities</b>		<b>46,781</b>	<b>54,280</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>84,964</b>	<b>80,287</b>	<b>42</b>	<b>68</b>
<b>Net assets</b>		<b>254,926</b>	<b>239,127</b>	<b>408,819</b>	<b>410,024</b>
<b>EQUITY</b>					
Contributed equity - ordinary shares	19	197,049	197,049	422,137	422,137
Reserves	22	(4,541)	(1,274)	625	246
Retained earnings	22	62,418	43,352	(13,943)	(12,359)
<b>Total equity</b>		<b>254,926</b>	<b>239,127</b>	<b>408,819</b>	<b>410,024</b>

## STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 JULY 2011

	Note	Group		Parent	
		2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
<b>Cash flows from operating activities</b>					
<b>Cash was provided from:</b>					
Receipts from customers		306,618	244,422	-	-
Dividends received		-	-	20,000	-
Interest received		179	258	-	2
		<u>306,797</u>	<u>244,680</u>	<u>20,000</u>	<u>2</u>
<b>Cash was applied to:</b>					
Payments to suppliers and employees		246,063	189,699	1,477	257
Income tax paid		14,175	11,904	2,875	-
Interest paid		6,785	10,474	-	-
		<u>267,023</u>	<u>212,077</u>	<u>4,352</u>	<u>257</u>
<b>Net cash inflow from operating activities</b>	7	<u>39,774</u>	<u>32,603</u>	<u>15,648</u>	<u>(255)</u>
<b>Cash flows from investing activities</b>					
<b>Cash was provided from:</b>					
Proceeds from sale of property, plant and equipment		-	9	-	-
		<u>-</u>	<u>9</u>	<u>-</u>	<u>-</u>
<b>Cash was applied to:</b>					
Purchase of property, plant and equipment	13	11,188	12,823	-	-
Purchase of intangibles	14	676	746	-	-
		<u>11,864</u>	<u>13,569</u>	<u>-</u>	<u>-</u>
<b>Net cash (outflow) from investing activities</b>		<u>(11,864)</u>	<u>(13,560)</u>	<u>-</u>	<u>-</u>
<b>Cash flows from financing activities</b>					
<b>Cash was provided from:</b>					
Proceeds from share issue	21	-	105,426	-	-
Proceeds of loan advances		240,223	126,884	4,351	261
		<u>240,223</u>	<u>232,310</u>	<u>4,351</u>	<u>261</u>
<b>Cash was applied to:</b>					
Costs associated with IPO		-	21,357	-	-
Dividends paid		20,000	-	20,000	-
Repayment of loan advances		248,177	258,511	-	-
		<u>268,177</u>	<u>279,868</u>	<u>20,000</u>	<u>-</u>
<b>Net cash inflow / (outflow) from financing activities</b>		<u>(27,954)</u>	<u>(47,558)</u>	<u>(15,649)</u>	<u>261</u>
<b>Net increase / (decrease) in cash held</b>		<u>(44)</u>	<u>(28,515)</u>	<u>(1)</u>	<u>6</u>
Opening cash and cash equivalents		4,736	32,209	6	-
Effect of foreign exchange rates		(1,118)	1,042	-	-
<b>Closing Cash</b>	8	<u>3,574</u>	<u>4,736</u>	<u>5</u>	<u>6</u>

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# KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2011

## 1 General information

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

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

These audited consolidated financial statements have been approved for issue by the Board of Directors on 21 September 2011.

## 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.

#### *Reverse Acquisition*

The acquisition of Milford Group Holdings Limited by Kathmandu Holdings Limited in November 2009 was recognised as a reverse acquisition and the 2010 consolidated financial statements were therefore prepared as a continuation of the financial statements of the accounting acquirer, Milford Group Holdings Limited.

As a result:

- The 2010 retained earnings of the Group represent the retained earnings of Milford Group Holdings Limited from the date of its incorporation, plus the results of other combining entities from the date of acquisition.
- The 2010 consolidated balance sheet comprises the existing consolidated net assets of Milford Group Holdings Limited and its controlled entities measured at their historical cost, except for derivatives which are measured at fair value, plus the fair value of the net assets of the other combining entities.

#### *Entities reporting*

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

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

<b>Kathmandu Holdings Limited</b>	<b>Parent Company</b>
Milford Group Holdings Limited	100% owned by Kathmandu Holdings Limited
Kathmandu Limited	100% owned by Milford Group Holdings Limited
Kathmandu Pty Limited	100% owned by Milford Group Holdings Limited
Kathmandu (U.K.) Limited	100% owned by Milford Group Holdings Limited

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

#### *Statutory base*

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

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

#### *Historical cost convention*

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

#### *Comparatives*

Certain comparatives have been reclassified in order to conform to the current period presentation and disclosure.

### *Critical accounting estimates*

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

#### *(i) Estimated impairment of goodwill and brands*

The group tests annually whether goodwill and brands have suffered any impairment; in accordance with the accounting policy stated in note 2 (q) (i) & (ii). The recoverable amounts of cash-generating units have been determined based on the fair value less cost to sell calculation. These calculations require the use of estimates (note 14).

#### *(ii) Stock obsolescence*

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

### **(b) Principles of consolidation**

#### *(i) Subsidiaries*

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

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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

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

#### *(ii) Transactions and non-controlling interests*

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

### **(c) Segment reporting**

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

### **(d) Foreign currency translation**

#### *(i) Functional and presentation currency*

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

#### *(ii) Transactions and balances*

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

#### *(iii) Group companies*

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

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

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

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

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

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

### **(e) Revenue recognition**

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

#### *(i) Sales of goods*

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

#### *(ii) Sales of services*

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

#### *(iii) Interest income*

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

#### *(iv) Dividend income*

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

### **(f) Current and deferred income tax**

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

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

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### **(g) Goods and Services Tax (GST)**

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

### **(h) Leases**

*The Group is the lessee*

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

### **(i) Impairment of non-financial assets**

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

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

### **(j) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### **(k) Trade receivables**

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

The collectability of trade receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the

provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

### **(l) Inventories**

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

### **(m) Investments and other financial assets**

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

#### *(i) Loans and receivables*

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

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

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

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

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset of a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

### **(n) Derivatives**

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

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



### *(i) Fair value hedge*

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

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

### *(ii) Cash flow hedge*

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

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

### *(iii) Derivatives that do not qualify for hedge accounting*

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

## **(o) Fair value estimation**

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

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

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

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

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

## **(p) Property, plant and equipment**

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

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

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

Leasehold Improvements	10 – 25 %
Office, Plant and Equipment	10 – 48 %
Furniture and Fittings	10 – 48 %
Computer Equipment	20 – 60%
Motor Vehicles	15 – 30%

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

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

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

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

## **(q) Intangible assets**

### *(i) Goodwill*

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

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

### *(ii) Brand*

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

### *(iii) Software costs*

Software costs have a finite useful life. Software costs are capitalised and written off over the useful economic life of four years.

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

## **(r) Trade and other payables**

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

### **(s) Provisions**

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

### **(t) Borrowings**

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

### **(u) Share Capital**

Ordinary shares are classified as equity.

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

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

### **(v) Employee benefits**

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

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

#### *(ii) Long service leave*

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

#### *(iii) Equity settled share option plan*

The Employee Share Option Plan allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense in the Income Statement with a corresponding increase in the employee share option 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 option reserve relating to those options is also transferred to share capital.

#### *(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 option 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 option

reserve relating to those rights are transferred to share capital. When any vested performance rights lapse, upon employee termination the amount in the share option reserve relating to those rights is also transferred to share capital.

### **(w) Dividends**

Dividend distribution to the Company shareholders is recognised as a liability in the Company's and Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### **(x) Cash Flow Statement**

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

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

### **(y) Changes in accounting policies**

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

## **3 Standards, interpretations and amendments to published standards**

There are no new standards or amendments to standards which were mandatory and were applied during the period.

The following are standards, amendments and interpretations to existing standards applicable to the Group but are not yet effective and have not been early adopted by the Group:

#### **NZ IFRS 9: Financial Instruments (mandatory for periods beginning on or after 1 January 2013)**

The standard replaces part of NZ IAS 39 and establishes two primary measurement categories for financial assets: amortised cost and fair value, with classification depending on an entity's business model and the contractual cash flow characteristics of the financial asset. The Company is currently in the process of evaluating the potential effect of this standard.

#### **NZ IAS 24: Related Parties Revised (mandatory for periods beginning on or after 1 January 2011)**

The revised Standard further clarifies the definition of a related party which may result in other related parties being identified. The Company is currently in the process of evaluating the potential effect of this standard.

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## 4 Income and expenses

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
<b>Profit / (loss) before income tax includes the following specific (income) and expenses:</b>				
<b>Income</b>				
Dividends received	-	-	(20,000)	-
Management Fees	-	-	(341)	-
<b>Expenses</b>				
<u>Depreciation</u>				
- Leasehold improvements	3,902	3,045	-	-
- Office, plant and equipment	484	394	-	-
- Furniture and fittings	1,555	1,239	-	-
- Computer equipment	584	669	-	-
- Motor vehicles	28	32	-	-
Total depreciation	6,553	5,379	-	-
<u>Amortisation</u>				
- Software	862	594	-	-
Total amortisation	862	594	-	-
(Gain) / Loss on sale of property, plant and equipment	527	290	-	-
Rental and operating lease expenses	31,918	25,610	-	-
Directors' fees	728	611	728	563
Donations	335	109	-	-
Employee entitlements:				
- Wages, salaries and other short term benefits	52,286	41,139	-	-
- Employee share based remuneration	379	246	379	246
<u>Finance Costs</u>				
Interest income	(179)	(258)	-	(2)
Interest expense	4,443	7,674	-	-
Other finance costs	2,256	1,674	-	-
Net exchange (gain) / loss on foreign currency borrowings	283	567	(49)	-
	<b>6,803</b>	<b>9,657</b>	<b>(49)</b>	<b>(2)</b>

Remuneration of auditors is detailed in Note 24.

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

**5 Costs associated with the Initial Public Offering (IPO)**

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
<b>Costs associated with Initial Public Offering:</b>				
Charged to income statement	-	16,834	-	11,572
Equity reduction (refer note 19)	-	4,523	-	4,523
	-	21,357	-	16,095
The total costs associated with the IPO can be analysed as follows:				
(a) Direct IPO costs	-	18,306	-	15,714
(b) Costs associated with IPO	-	3,051	-	381
Total costs associated with IPO	-	21,357	-	16,095
(a) The direct costs of the IPO include legal, accounting and tax due diligence and advice, Joint Lead Manager's fees (including the discretionary incentive fee), prospectus design and printing, advertising, marketing, share registry and other expenses. The direct costs have been allocated based on the proportion of new equity raised to the total IPO proceeds and accounted for as either an expense or a reduction in equity as follows:				
Reduction in equity	-	4,523	-	4,523
Charged to income statement	-	13,783	-	13,783
	-	18,306	-	18,306

(b) The costs associated with the IPO have been expensed and comprise primarily the costs of exiting the previous banking facilities together with the related interest rate swaps.

**6 Income tax expense**

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
<b>Income statement</b>				
Current income tax charge	17,237	10,791	(339)	(1)
Deferred income tax charge (refer note 16)	914	1,786	445	(445)
Income tax charge / (credit) reported in income statement	18,151	12,577	106	(446)
<b>Reconciliation of effective tax charge</b>				
Profit before income tax	57,217	21,964	18,522	(12,805)
Income tax calculated at 30%	17,165	6,589	5,557	(3,841)
Adjustments to taxation:				
Adjustments due to different rate in different jurisdictions	51	76	-	-
Non-taxable income	-	(559)	(6,000)	(71)
Expenses not deductible for tax purposes	967	5,143	189	3,461
Effect of change in corporate tax rate	13	12	(5)	5
Utilisation of tax losses by group companies	-	-	365	-
Tax expense transferred to foreign currency translation reserve	202	(529)	-	-
Adjustments in respect of prior years	(247)	1,845	-	-
<b>Income tax charge / (credit) reported in income statement</b>	<b>18,151</b>	<b>12,577</b>	<b>106</b>	<b>(446)</b>

On 20 May 2010 the New Zealand Government announced that the company tax rate will reduce from 30% to 28% and tax depreciation on any buildings with an estimated useful life of 50 years or more will reduce to 0%. The changes were substantively enacted on 21 May 2010 and are effective for years beginning on or after 1 August 2011. The effect of these changes on the re-measurement of deferred tax balances has been brought to account in the financial statements for the years ended 31 July 2010 and 2011.

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### Unrecognised tax losses

The group has estimated tax losses to carry forward from Kathmandu (U.K.) Limited of £5,743,723 (NZ\$12,016,157) (2010: £4,705,832 (NZ\$10,120,069)) which can be carried forward to be offset against future profits generated within the UK.

### Imputation credits reconciliation

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
<b>Opening balance at 1 August</b>	<b>4,207</b>	<b>6,765</b>	<b>1</b>	<b>-</b>
Income tax – paid	6,356	9,372	-	-
Resident withholding tax on interest received	8	15	-	1
Draw through to consolidated Group ICA	-	-	(1)	-
Income tax refund received	(396)	-	-	-
Dividends paid	(5,696)	-	-	-
Imputations lost on shareholding change	-	(11,945)	-	-
<b>Closing balance at 31 July</b>	<b>4,479</b>	<b>4,207</b>	<b>-</b>	<b>1</b>

The balance of Australian franking credits able to be used by the Group as at 31 July 2011 is A\$836,783 (2010: A\$1,399,463).

### 7 Reconciliation of net profit after taxation with cash inflow from operating activities

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
Profit after taxation	39,066	9,387	18,416	(12,359)
Movement in working capital:				
(Increase) / decrease in trade and other receivables	1,564	(1,274)	(11)	(181)
(Increase) / decrease in inventories	(16,585)	2,198	-	-
Increase / (decrease) in trade and other payables	4,121	(988)	(26)	68
Increase / (decrease) in tax liability	2,369	(1,710)	(3,213)	-
	(8,531)	(1,774)	(3,250)	(113)
<i>Add non cash items:</i>				
Depreciation	6,553	5,379	-	-
Amortisation of intangibles	862	594	-	-
Revaluation of derivative financial instruments	913	4	-	-
(Increase) / decrease in deferred taxation	5	1,643	445	(445)
Employee share based remuneration	379	246	379	246
Loss on sale of property, plant and equipment	527	290	-	-
	9,239	8,156	824	(199)
<i>Items classified as financing activities:</i>				
Costs associated with the IPO	-	16,834	-	-
Intercompany financing	-	-	(342)	12,416
<b>Cash inflow from operating activities</b>	<b>39,774</b>	<b>32,603</b>	<b>15,648</b>	<b>(255)</b>

**8 Cash and cash equivalents**

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
Cash on hand	155	143	-	-
Cash at bank	3,419	4,593	5	6
Short term deposits	-	-	-	-
	<u>3,574</u>	<u>4,736</u>	<u>5</u>	<u>6</u>

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

NZD	389	225	5	6
AUD	2,499	3,747	-	-
GBP	550	432	-	-
USD	135	321	-	-
EUR	1	11	-	-
	<u>3,574</u>	<u>4,736</u>	<u>5</u>	<u>6</u>

**9 Trade and other receivables**

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
Trade receivables	92	-	-	-
Sundry debtors and prepayments	2,247	3,903	192	181
	<u>2,339</u>	<u>3,903</u>	<u>192</u>	<u>181</u>

**Bad and doubtful trade receivables**

The Group has recognised a loss of \$0 (2010: \$0) in respect of bad and doubtful trade receivables during the year ended 31 July 2011.

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

NZD	1,129	1,181	192	137
AUD	683	2,032	-	44
GBP	527	690	-	-
USD	-	-	-	-
	<u>2,339</u>	<u>3,903</u>	<u>192</u>	<u>181</u>

**10 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 \$75,730 (2010: \$112,274 (Legal Fees) and \$413,386 (IPO costs)) 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.

During the year, operating lease costs of \$199,000 (2010: \$98,000) were paid to Chalmers Properties Limited, a subsidiary of Port Otago Limited. John Harvey is a Director of both of these companies.

The previous shareholders granted to James Strong, with effect from listing, an option to purchase ("Call Option") 1,764,705 shares. The exercise price of the Call Option is A\$1.70 per Option Share. The call option is only exercisable fourteen days after the audited financial results for the year ended 31 July 2010 is reported, and otherwise during a permitted trading window for dealing in the Company's securities under applicable laws or the Company's securities trading policy. The Call Option will expire on 23 November 2011.

All subsidiaries within the group (note 15) are related parties. No amounts owed to related parties have been written



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off or forgiven during the year.

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

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

- Loans from the parent to subsidiaries (Kathmandu Limited) \$84,215,544 (2010: \$88,225,280).
- Loans to the parent from subsidiaries \$0 (2010: \$0).

Material transactions between the parent and its subsidiaries were:

- Management fees charged to subsidiaries \$341,000 (2010: \$0)

### (a) Key Management Personnel

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
Salaries	2,515	2,013	-	-
Other short-term employee benefits	1,355	217	-	-
Termination benefits	-	-	-	-
Employee performance rights	246	-	246	-
Employee share option plans	177	246	177	246
	4,293	2,476	423	246

### (b) Non-Executive Directors

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
Total directors fees	728	611	728	563
Share purchase plans	-	-	-	-
Share option plans	-	-	-	-
	728	611	728	563

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

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

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

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

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2010	Short-Term Benefits			Post-employment benefits		Share based payments				
Name	Cash	Cash	Non-	Super-	Retirement	Share	Performance	Proportion of	Total	Proportion of
	Salary and							bonus		Monetary
	fees		benefits					related		related
	\$	\$	\$	\$	\$	\$	\$	%	\$	%
<b>Non-Executive Directors</b>										
James Strong	225,213	-	-	-	-	-	-	-	225,213	-
John Harvey	112,607	-	-	-	-	-	-	-	112,607	-
John Holland	112,607	-	-	-	-	-	-	-	112,607	-
Sandra McPhee	112,607	-	-	-	-	-	-	-	112,607	-
<b>Total Non-Executive Directors</b>										
	<b>563,034</b>	-	-	-	-	-	-	-	<b>563,034</b>	-
<b>Executive Directors</b>										
Peter Halkett	586,447	-	7,076	-	-	122,726	-	17.1%	716,249	0.0%
Mark Todd	282,552	50,000	2,938	7,193	-	35,178	-	9.3%	377,861	13.2%
<b>Total Executive Directors</b>										
	<b>868,999</b>	<b>50,000</b>	<b>10,014</b>	<b>7,193</b>	-	<b>157,904</b>	-	<b>14.4%</b>	<b>1,094,110</b>	<b>4.6%</b>
<b>Other Key Management Personnel</b>										
Matt Spencer	339,942	-	9,862	29,466	-	26,059	-	6.4%	405,329	0.0%
Michelle Adams	200,582	141,699	1,033	6,846	-	17,633	-	4.8%	367,793	38.5%
Tamalin Morton	216,625	-	-	18,806	-	24,340	-	9.4%	259,771	0.0%
Caleb Nicolson	161,347	-	2,443	3,227	-	10,227	-	5.8%	177,244	0.0%
Bryan Moore	159,789	-	2,372	-	-	9,874	-	5.7%	172,035	0.0%
<b>Total Other Key Management Personnel</b>										
	<b>1,078,285</b>	<b>141,699</b>	<b>15,710</b>	<b>58,345</b>	-	<b>88,133</b>	-	<b>6.4%</b>	<b>1,382,172</b>	<b>10.3%</b>
<b>Total</b>	<b>2,510,318</b>	<b>191,699</b>	<b>25,724</b>	<b>65,538</b>	-	<b>246,037</b>	-	<b>8.1%</b>	<b>3,039,316</b>	<b>6.3%</b>

**11 Derivative financial instruments**

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
<b>Asset</b>				
Interest rate swaps - cash flow hedge	2	44	-	-
Foreign exchange contracts - cash flow hedge	-	-	-	-
	2	44	-	-
Less non-current portion:				
Interest rate swaps - cash flow hedge	-	44	-	-
Foreign exchange contracts - cash flow hedge	-	-	-	-
Current portion	2	-	-	-
<b>Liabilities</b>				
Interest rate swaps - cash flow hedge	340	315	-	-
Foreign exchange contracts - cash flow hedge	10,466	4,819	-	-
	10,806	5,134	-	-
Less non-current portion:				
Interest rate swaps - cash flow hedge	301	315	-	-
Foreign exchange contracts - cash flow hedge	-	-	-	-
Current portion	10,505	4,819	-	-

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

**(a) Interest rate swaps - cash flow hedge**

Interest rate swaps are to exchange a floating rate of interest for a fixed rate of interest. The objective of the transaction is to hedge the core borrowings of the business to minimise interest cost within acceptable levels of risk thereby limiting the volatility on the Group's financial results. The total amount of interest rate swaps at balance date was \$40,284,450 (2010: \$39,844,720). The fixed interest rates range between 4.73% and 5.25% (2010: 4.73% and 5.25%).

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

**(b) Foreign exchange contracts - cash flow hedge**

The objective of these contracts is to hedge highly probable anticipated foreign currency purchases against currency fluctuations. These contracts are timed to mature when import purchases are scheduled for payment. The total of foreign exchange contracts amount to US\$63,050,000, NZ\$84,184,649 (2010: US\$53,700,000, NZ\$80,033,820).

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

**12 Inventories**

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
Trading stock	47,146	28,984	-	-
Goods in transit	6,855	8,432	-	-
	54,001	37,416	-	-

Inventory has been reviewed for stock selling below cost and no provision (2010: \$nil) has been made.

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### 13 Property, plant and equipment

Group	Leasehold improvement \$'000	Office, plant & equipment \$'000	Furniture & fittings \$'000	Computer equipment \$'000	Motor vehicles \$'000	Total \$'000
<b>As at 31 July 2009</b>						
Cost or valuation	22,604	2,990	6,701	5,877	335	38,507
Accumulated depreciation	(8,212)	(1,649)	(2,741)	(4,379)	(200)	(17,181)
Closing net book value	14,392	1,341	3,960	1,498	135	21,326
<b>Year ended 31 July 2010</b>						
Opening net book value	14,392	1,341	3,960	1,498	135	21,326
Additions	7,022	625	3,801	1,351	24	12,823
Disposals	(221)	(1)	(63)	(5)	(8)	(298)
Depreciation charge	(3,045)	(394)	(1,239)	(669)	(32)	(5,379)
Exchange differences	(382)	(13)	(35)	(22)	(2)	(454)
Closing net book value	17,766	1,558	6,424	2,153	117	28,018
<b>As at 31 July 2010</b>						
Cost or valuation	28,373	3,565	10,301	6,990	314	49,543
Accumulated depreciation	(10,607)	(2,007)	(3,877)	(4,837)	(197)	(21,525)
Closing net book value	17,766	1,558	6,424	2,153	117	28,018
<b>Year ended 31 July 2011</b>						
Opening net book value	17,766	1,558	6,424	2,153	117	28,018
Additions	9,134	304	1,025	725	-	11,188
Disposals	(137)	-	(28)	(7)	-	(172)
Depreciation charge	(3,902)	(484)	(1,555)	(584)	(28)	(6,553)
Exchange differences	205	27	96	12	1	341
Closing net book value	23,066	1,405	5,962	2,299	90	32,822
<b>As at 31 July 2011</b>						
Cost or valuation	37,178	3,907	11,379	7,621	317	60,402
Accumulated depreciation	(14,112)	(2,502)	(5,417)	(5,322)	(227)	(27,580)
Closing net book value	23,066	1,405	5,962	2,299	90	32,822

**14 Intangible assets**

Group	Goodwill	Brand	Software	Total
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
<b>As at 31 July 2009</b>				
Cost or valuation	76,677	167,455	2,331	246,463
Accumulated amortisation and impairment	(1,271)	-	(1,337)	(2,608)
Closing net book value	75,406	167,455	994	243,855
<b>Year ended 31 July 2010</b>				
Opening net book value	75,406	167,455	994	243,855
Additions	-	-	746	746
Disposals	-	-	-	-
Amortisation	-	-	(594)	(594)
Exchange differences	-	(2,170)	(12)	(2,182)
Closing net book value	75,406	165,285	1,134	241,825
<b>As at 31 July 2010</b>				
Cost or valuation	76,677	165,285	3,065	245,027
Accumulated amortisation and impairment	(1,271)	-	(1,931)	(3,202)
Closing net book value	75,406	165,285	1,134	241,825
<b>Year ended 31 July 2011</b>				
Opening net book value	75,406	165,285	1,134	241,825
Additions	-	-	676	676
Disposals	-	-	-	-
Amortisation	-	-	(862)	(862)
Exchange differences	-	2,023	23	2,046
Closing net book value	75,406	167,308	971	243,685
<b>As at 31 July 2011</b>				
Cost or valuation	76,677	167,308	3,764	247,749
Accumulated amortisation and impairment	(1,271)	-	(2,793)	(4,064)
Closing net book value	75,406	167,308	971	243,685

*Impairment tests for goodwill and brand*

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

Group	Goodwill		Brand	
	2011	2010	2011	2010
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
New Zealand	28,654	28,654	51,000	51,000
Australia	46,752	46,752	116,308	114,285
	75,406	75,406	167,308	165,285

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

In the prior year three valuation methodologies were used, however due to the significant headroom between all valuation methodologies and the carrying value of goodwill and brand, only the discounted cash flow method will be used going forward.

The discounted cash flow valuations were calculated using projected five year future cash flows, based on Board approved business plans. Growth is expected to continue as the store rollout programme (approximately fifteen

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stores per year) continues and like for like sales increase. Cash flows beyond five years have been extrapolated using the following key assumptions:

	<u>2011</u>	<u>2010</u>
Terminal growth rate	2.5%	2.5%
New Zealand CGU pre-tax discount rate	15.7%	15.4%
Australia CGU pre-tax discount rate	15.4%	14.7%
Consolidated pre-tax discount rate	15.6%	15.1%

The calculations confirmed that there was no impairment of goodwill and brand during the year (2010: 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.

### 15 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:

<b>Name of entity</b>	<b>Equity holding</b>	
	<u>2011</u>	<u>2010</u>
Milford Group Holdings Limited	100%	100%
Kathmandu Limited	100%	100%
Kathmandu Pty Limited	100%	100%
Kathmandu (U.K.) Limited	100%	100%

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

The principal activities of the subsidiaries are:

	<b>Country of Registration</b>	<b>Principal Activity</b>
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

	<u>2011</u>	<u>2010</u>
	<u>NZ\$</u>	<u>NZ\$</u>
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>

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### 16 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 Losses	Other timing differences	Reserves	Total
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
As at 31 July 2009	11	1,207	409	2,918	570	5,115
Credit to the income statement	(2)	(512)	(43)	(1,261)	-	(1,818)
Charge to other comprehensive income	-	-	-	-	175	175
As at 31 July 2010	9	695	366	1,657	745	3,472
Credit to the income statement	59	235	(365)	(843)	-	(914)
Charge to other comprehensive income	-	1	-	39	869	909
As at 31 July 2011	68	931	1	853	1,614	3,467

	Parent					
	Tax depreciation	Employee obligations	Other timing Losses	Other timing differences	Reserves	Total
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
As at 31 July 2009	-	-	-	-	-	-
Charge to the income statement	-	69	365	11	-	445
As at 31 July 2010	-	69	365	11	-	445
Credit to the income statement	-	(69)	(365)	(11)	-	(445)
As at 31 July 2011	-	-	-	-	-	-

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	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
Deferred taxation assets:				
- Deferred tax asset to be recovered after more than 12 months	1,445	1,289	-	69
- Deferred tax asset to be recovered within 12 months	3,057	2,411	-	376
Deferred taxation liabilities:				
- Deferred tax liability to be recovered after more than 12 months	-	-	-	-
- Deferred tax liability to be recovered within 12 months	(1,035)	(228)	-	-
	3,467	3,472	-	445



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### Movements

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

	Group		Parent	
	2011	2010	2011	2010
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Opening balance	3,472	5,115	445	-
Income statement charge	(914)	(1,818)	(445)	445
Tax charged directly to equity	909	175	-	-
Closing balance	3,467	3,472	-	445

### Effective tax rate reconciliation:

	Group		Parent	
	2011	2010	2011	2010
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Re-measurement of deferred tax - company tax rate change from 30% to 28%	(13)	(12)	5	(5)
Re-measurement of deferred tax - removal of depreciation on buildings	-	-	-	-
	(13)	(12)	5	(5)

### 17 Trade and other payables

	Group		Parent	
	2011	2010	2011	2010
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Trade payables	6,685	4,463	-	-
Employee entitlements	4,979	2,818	-	-
Sundry creditors and accruals	9,348	9,610	42	68
	21,012	16,891	42	68

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

NZD	5,624	2,916	24	58
AUD	8,722	6,488	18	10
GBP	810	954	-	-
USD	5,856	6,533	-	-
	21,012	16,891	42	68

### 18 Interest bearing liabilities

	Group		Parent	
	2011	2010	2011	2010
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Current portion	-	-	-	-
Non-current portion	46,480	53,965	-	-
Total term loans	46,480	53,965	-	-

The bank loan is part of a facility agreement with ANZ National Bank, Bank of New Zealand and Commonwealth

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Bank of Australia dated 19 November 2009. The loan is repayable in full on final maturity date of the facility being 13 November 2012. Interest is payable based on the BKBM rate (\$NZ borrowings) or the BBSY rate (\$A borrowings) plus a margin of up to 1.25%. The bank loan is 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 quarter during the financial year. Similarly EBITDA must be no less than a specified proportion of total net debt at the end of each quarter. The calculations of these covenants are specified in the bank syndicated facility agreement of 19 November 2009 and have been complied with at the end of each quarter of the year ended 31 July 2011.

The current interest rates, prior to hedging, on the term loans ranged between 3.65% - 5.99% (2010: 4.24% - 5.81%).

	Group		Parent	
	2011	2010	2011	2010
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
The maturity analysis of interest bearing liabilities is:				
Payable within 1 year	-	-	-	-
Payable 1 to 2 years	46,480	-	-	-
Payable 2 to 3 years	-	53,965	-	-
Payable 3 to 4 years	-	-	-	-
	46,480	53,965	-	-

### 19 Contributed equity - ordinary shares

	Group		Parent	
	2011	2010	2011	2010
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Ordinary shares fully paid (\$)	197,049	197,049	422,137	422,137
Balance at beginning of year	197,049	96,146	422,137	-
Shares issued during the year	-	105,426	-	426,660
Less capital raising costs (refer note 5)	-	(4,523)	-	(4,523)
Balance at end of year	197,049	197,049	422,137	422,137

#### Number of authorised shares

	Group		Parent	
	2011	2010	2011	2010
	'000	'000	'000	'000
Ordinary shares on hand at beginning of the year	200,000	9,081,072	200,000	-
Shares issued during the year	-	200,000	-	200,000
Shares repurchased	-	(9,081,072)	-	-
Ordinary shares on hand at end of the year	200,000	200,000	200,000	200,000

#### (a) Ordinary shares

As at 31 July 2009 there were 9,081,072,589 issued shares in Milford Group Holdings Limited. As a result of the Initial Public Offer (November 2009) and subsequent reverse acquisition transaction as at 31 July 2010 there were 200,000,000 ordinary issued shares in Kathmandu Holdings Limited and these are classified as equity. No shares were issued during the year ending 31 July 2011.

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

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

During the financial year the Company issued nil options (2010: 1,119,976) to Executive Directors and senior executives. The fair value of options issued during the financial year is \$nil (2010: \$518,590). The options issued during 2010 were valued under a Monte Carlo simulation approach factoring in the total shareholder return condition using the following assumptions:

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

A 50% Net Profit after Tax dividend payout ratio was factored into the valuation of the options based on management budgets. The expected volatility was been 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 \$168,587 (2010: \$246,037) which represents this amortisation.

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

	2011		2010	
	Average exercise price \$ per share	Options '000	Average exercise price \$ per share	Options '000
Balance at beginning of year	2.1333	1,120	-	-
Issued	-	-	2.1333	1,120
Forfeited	2.1333	(46)		
<b>Balance at end of year</b>	<b>2.1333</b>	<b>1,074</b>	<b>2.1333</b>	<b>1,120</b>

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

First Vesting Month	Last Vesting Month	Exercise Price	2011 '000	2010 '000
October 2010	October 2013	\$2.1333	358	373
October 2011	October 2013	\$2.1333	358	373
October 2012	October 2013	\$2.1333	358	374
			<u>1,074</u>	<u>1,120</u>

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### Executive and Senior Management Long Term Incentive Plan 24 November 2010

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

#### *Executive Directors and Key Management Personnel*

On 29 November 2010 the Company granted 374,292 performance rights to two Executive Directors and six Key Management personnel. The performance rights will vest in three equal tranches:

Tranche	Vesting Date	Number
Tranche 1	1 December 2012	124,764
Tranche 2	1 December 2013	124,764
Tranche 3	1 December 2014	124,764
		374,292

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, which is currently comprised of 18 retail companies in New Zealand and Australia listed on either the ASX or NZX. The percentage of TSR related rights vest according to the following performance criteria:

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

The TSR performance is calculated for the following performance periods:

Tranche	Performance Period
Tranche 1	24 months to 1 December 2012
Tranche 2	24 months to 1 December 2013
Tranche 3	24 months to 1 December 2014

The fair value of the TSR rights have been valued at \$173,422 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 future share prices were simulated using a random-walk process using the following assumptions:

Current price at issue date	\$1.62
Risk free interest rate	4.79%
Expected life (years)	2-4
Expected share volatility	38%

The estimated fair value for each tranche of options issued is amortised over the vesting period from the grant date. The Company has recognised a compensatory expense in the income statement of \$41,948 (2010: \$0) 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 2010. The applicable performance periods are:

Tranche	Performance Period
Tranche 1	FY12 EPS relative to FY10 EPS
Tranche 2	FY13 EPS relative to FY10 EPS
Tranche 3	FY14 EPS relative to FY10 EPS

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

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

The fair value of the rights have been assessed as the Kathmandu Holdings Limited share price as at the grant date less the present value of the dividends forecast to be paid prior to the 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 \$61,194 (2010: \$0) which represents this amortisation.

### **Senior Management**

On 29 November 2010 the Company granted 177,977 performance rights to selected senior management employees. 50% of the rights granted to each employee vest if an earnings per share (EPS) of 15.275 cps is achieved for the year ended 31 July 2011. The remaining 50% vest if EPS exceeds 15.975 cps. In both instances, if vesting occurs, it takes place on 31 July 2012, provided the employee remains in employment with the company to that date. Earnings per share exceeded 15.975 cps for the year ended 31 July 2011. The fair value of the rights have been assessed as the Kathmandu Holdings Limited share price as at the grant date less the present value of the dividends forecast to be paid prior to the 31 July 2012 vesting date. The fair value of each right has been calculated to be NZ\$1.50 per right. The value of each right is amortised over the period from the grant date to the vesting date.

The Company has recognised a compensatory expense in the income statement of \$107,318 (2010: \$0) which represents this amortisation.

## 21 Reverse acquisition

Under the terms of NZ IFRS 3 Business Combinations, Milford Group Holdings Limited was deemed to be the accounting acquirer in the business combination. This transaction has therefore been accounted for as a reverse acquisition under NZ IFRS 3. Accordingly the consolidated financial statements of Kathmandu Holdings Limited have been prepared as a continuation of the consolidated financial statements of Milford Group Holdings Limited as the deemed acquirer.

Although legally the transaction involved Kathmandu Holdings Limited raising \$426.6m by the issue of new shares and the expending of \$321.3m in cash for the acquisition of Milford Group Holdings Limited, the substance from a group perspective is that \$105.4m of new capital was raised. Of this \$19.7m was used to settle the costs associated with the IPO and \$85.7m was used to repay debt. The substance is reflected in the reverse acquisition accounting adopted in these consolidated financial statements.

Kathmandu Holdings Limited was incorporated on 1 October 2009 and did not commence trading until 13 November 2009. In the period between 13 November 2009 and 31 July 2010 Kathmandu Holdings Limited did not generate any income, and incurred expenses which primarily related to Directors and annual listing costs, and the cost associated with the IPO as set out in note 5. At the date of acquisition the net assets of Kathmandu Holdings Limited comprised cash of \$105,426. There was no goodwill.

## 22 Reserves and retained earnings

### (a) Reserves

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
(i) Cash flow hedging reserve				
Opening balance	(4,000)	(1,420)	-	-
Revaluation - gross	(6,161)	(2,908)	-	-
Deferred tax	869	175	-	-
Transfer to net profit - gross	237	153	-	-
Closing balance	(9,055)	(4,000)	-	-
(ii) Foreign Currency Translation Reserve				
Opening balance	2,480	3,995	-	-
Currency translation differences	1,409	(1,515)	-	-
Closing balance	3,889	2,480	-	-
(iii) Share Option Reserve				
Opening balance	246	-	246	-
Current year amortisation	379	246	379	246
Closing balance	625	246	625	246
Total Reserves	(4,541)	(1,274)	625	246

### Nature and purpose of reserves

#### (i) Cash flow hedging reserve

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

#### (ii) Foreign currency translation reserve

The foreign currency translation reserve is used to record gains or losses on investments in foreign operations. The amounts are accumulated in equity and recognised in profit and loss when the foreign operation is partially disposed of or sold.

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### (iii) Share option reserve

The employee share option reserve is used to recognise the fair value of options granted but not exercised or lapsed. Amounts are transferred to share capital when the vested options are exercised by the employee or lapse upon expiry.

### (b) Retained earnings

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
Opening retained earnings	43,352	33,965	(12,359)	-
Profit / (loss) for the year	39,066	9,387	18,416	(12,359)
Less dividends paid	(20,000)	-	(20,000)	-
Balance at 31 July	62,418	43,352	(13,943)	(12,359)

### 23 Dividends

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
Prior year final dividend paid	14,000	-	14,000	-
Current year interim dividend paid	6,000	-	6,000	-
Dividends paid (\$0.10 per share (2010; \$0.00))	20,000	-	20,000	-

### 24 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	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
<b>(a) Audit services</b>				
PricewaterhouseCoopers				
Statutory audit	106	102	57	55
Half year review	25	38	25	38
Other assurance services	7	5	-	-
Total remuneration for audit services	138	145	82	93
<b>(b) Other services</b>				
Accounting standards advice	-	59	-	-
IPO due diligence	-	533	-	495
Total remuneration for other services	-	592	-	495
Total auditor remuneration	138	737	82	588

**25 Contingent liabilities**

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
Liabilities outstanding under letters of credit	2,497	1,767	-	-
Rent guarantees	8,530	7,643	-	-
Financial guarantees	1,188	1,430	-	-

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

**26 Contingent assets**

There are no contingent assets in 2011 (2010: nil).

**27 Commitments**

**(a) Capital commitments**

Capital commitments contracted for at balance date are:

	Group		Parent	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
Property, plant and equipment	131	440	-	-
Intangible assets	159	339	-	-
	290	779	-	-

**(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	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
Due within 1 year	31,708	23,834	-	-
Due within 1-2 years	28,885	21,459	-	-
Due within 2-5 years	62,889	46,580	-	-
Due after 5 years	23,785	17,760	-	-
	147,267	109,633	-	-

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.



## 28 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 options 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 11. Interest on borrowings is denominated in either New Zealand dollars or Australian dollars currency, and is paid for out of surplus operating cashflows generated in New Zealand or Australia.

Refer to note 11 which shows the forward foreign exchange contracts and options 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 11 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 18 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	
	2011 NZ\$'000	2010 NZ\$'000	2011 NZ\$'000	2010 NZ\$'000
Total secured loans	46,480	53,965	-	-
less principal covered by interest rate swaps	(40,284)	(39,845)	-	-
Principal on floating interest	6,196	14,120	-	-

Interest rates on loans currently range from 3.65% – 5.99% (2010: 4.24% - 5.81%). The Company has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its long-term debt. The cashflow hedge (gain)/loss on interest rate swaps at balance date was \$338,244 (2010: \$271,285).

#### *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 -15% / +5% for foreign exchange risk has been selected. While it is unlikely that an equal movement of the New Zealand dollar would be observed against all currencies an overall sensitivity of -15% / +5% is reasonable given the exchange rate volatility observed on an historic basis for the preceding five year period and market expectation for potential future movements.

A sensitivity of 1% 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.

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

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

Group	Carrying amount \$'000	Interest rate risk				Foreign exchange risk			
		-1%		+1%		-10%		+10%	
	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	
<b>31 July 2010</b>									
Derivative financial instruments (asset) / liability	5,090	(398)	603	398	(668)	-	(8,322)	-	6,785
<b>Financial assets</b>									
Cash	4,736	(34)	-	34	-	361	-	(295)	-
<b>Financial liabilities</b>									
Trade payables	16,891	-	-	-	-	(865)	-	707	-
Borrowings	53,965	539	-	(539)	-	-	(2,117)	-	1,732
		539	-	(539)	-	(865)	(2,117)	707	1,732
<b>Total increase / decrease</b>		107	603	(107)	(668)	(504)	(10,439)	412	8,517

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

### (b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This would arise principally from the Group's receivables from customers. The nature of the customer base is such that there is no individual customer concentration of credit risk. Other financial instruments which potentially subject the Company 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 Company does not carry out credit evaluations for all new customers requiring credit. Credit is generally only given to government or local council backed institutions.

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### 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	
	2011	2010	2011	2010
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Cash and cash equivalents	3,574	4,736	5	6
Trade receivables	92	-	-	-
Sundry debtors	407	865	-	-
	<u>4,073</u>	<u>5,601</u>	<u>5</u>	<u>6</u>

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

### (c) Liquidity risk

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

The Group's liquidity exposure is managed by ensuring sufficient levels of liquid assets and committed facilities are maintained based on regular monitoring of cash flow forecasts. The Group has lending facilities of \$126,311,631 (2010 : \$125,201,863) 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 sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year NZ\$'000	Between 1 and 2 years NZ\$'000	Between 2 and 5 years NZ\$'000	Over 5 years NZ\$'000
<b>Group 2011</b>				
Trade and other payables	21,012	-	-	-
Guarantees	12,215	-	-	-
Borrowings	2,163	47,274	-	-
	<u>35,390</u>	<u>47,274</u>	-	-
<b>Group 2010</b>				
Trade and other payables	16,891	-	-	-
Guarantees	10,840	-	-	-
Borrowings	2,599	2,599	54,915	-
	<u>30,330</u>	<u>2,599</u>	<u>54,915</u>	-

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 of the balance sheet 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.

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	<b>Less than 1 year NZ\$'000</b>	<b>Between 1 and 2 years NZ\$'000</b>	<b>Between 2 and 5 years NZ\$'000</b>
<b>At 31 July 2011</b>			
Forward foreign exchange contracts			
- Inflow	73,719	-	-
- Outflow	(84,185)	-	-
Net Inflow / (Outflow)	(10,466)	-	-
Net settled derivatives – interest rate swaps			
Net (Outflow)	(254)	(84)	-
<b>At 31 July 2010</b>			
Forward foreign exchange contracts			
- Inflow	75,214	-	-
- Outflow	(80,033)	-	-
Net Inflow / (Outflow)	(4,819)	-	-
Net settled derivatives – interest rate swaps			
Net (Outflow)	(181)	(90)	-

### Fair values

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

#### *Trade debtors, trade creditors and bank balances*

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

#### *Term liabilities*

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

Foreign exchange contracts and interest rate swaps

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

#### *Guarantees and overdraft facilities*

The fair value of these instruments is estimated on the basis that management do not expect settlement at face value to arise. The carrying value and fair value of these instruments is nil. Details of guarantees are included in note 25. All guarantees are repayable on demand.

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### Financial instruments by category

	Loans and receivables NZ\$'000	Derivatives used for hedging NZ\$'000	Measured at amortised cost NZ\$'000	Total NZ\$'000
<b>Group</b>				
<b>At 31 July 2011</b>				
Cash and cash equivalents	3,574	-	-	3,574
Trade and other receivables	499	-	-	499
Derivative financial instrument assets	-	2	-	2
Total financial assets	4,073	2	-	4,075
Trade and other payables	-	-	21,012	21,012
Interest bearing liabilities	-	-	46,480	46,480
Derivative financial instrument liabilities	-	10,806	-	10,806
Total financial liabilities	-	10,806	67,492	78,298
<b>At 31 July 2010</b>				
Cash and cash equivalents	4,736	-	-	4,736
Trade and other receivables	865	-	-	865
Derivative financial instrument assets	-	44	-	44
Total financial assets	5,601	44	-	5,645
Trade and other payables	-	-	16,891	16,891
Interest bearing liabilities	-	-	53,965	53,965
Derivative financial instrument liabilities	-	5,134	-	5,134
Total financial liabilities	-	5,134	70,856	75,990
<b>Parent</b>				
<b>At 31 July 2011</b>				
Cash and cash equivalents	5	-	-	5
Trade and other receivables	-	-	-	-
Related party receivable	84,216	-	-	84,216
Total financial assets	84,221	-	-	84,221
Trade and other payables	-	-	42	42
Related party payable	-	-	-	-
Total financial liabilities	-	-	42	42
<b>At 31 July 2010</b>				
Cash and cash equivalents	6	-	-	6
Trade and other receivables	-	-	-	-
Related party receivable	88,225	-	-	88,225
Total financial assets	88,231	-	-	88,231
Trade and other payables	-	-	68	68
Related party payable	-	-	-	-
Total financial liabilities	-	-	68	68

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2011

### Capital risk management

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

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

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

### Externally imposed capital requirements

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

## 29 Segmental information

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

31 July 2011	New Zealand NZ\$'000	Australia NZ\$'000	United Kingdom NZ\$'000	Elimination NZ\$'000	Total NZ\$'000
Segment profit / (loss) before income tax and IPO costs	27,311	33,149	(2,568)	(675)	57,217
Costs associated with IPO					-
Income tax expense					(18,151)
Profit / (loss) after tax					39,066
Segment profit / (loss) before income tax and IPO costs includes the following specific income and (expenses):					
Sales to external customers	110,335	187,565	8,243	-	306,143
Cost of sales	(43,469)	(58,578)	(3,513)	-	(105,560)
Net interest income/(expense)	(1,875)	(2,388)	-	-	(4,263)
Net other finance income/(expense)	(1,043)	(417)	(340)	(740)	(2,540)
Intercompany net finance income/(expense)	3,556	(3,556)	-	-	-
Intercompany recharges income/(expense)	6,872	(6,872)	-	-	-
Depreciation and software amortisation	(2,371)	(4,628)	(416)	-	(7,415)
Other income from reversal of UK Loan provision	-	-	-	-	-
Total current assets	388,794	32,381	3,103	(364,362)	59,916
Total non-current assets (excl deferred tax)	333,655	136,985	695	(194,828)	276,507
Total assets	722,449	169,366	3,798	(559,190)	336,423
Total current liabilities	(11,270)	(88,755)	(3,721)	65,563	(38,183)
Total non-current liabilities	(26,724)	(20,057)	-	-	(46,781)
Total liabilities	(37,994)	(108,812)	(3,721)	65,563	(84,964)

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31 July 2010	New Zealand \$'000	Australia \$'000	United Kingdom \$'000	Elimination \$'000	Total \$'000
Segment profit / (loss) before income tax and IPO	36,244	12,966	(3,818)	(6,594)	38,798
Costs associated with IPO					(16,834)
Income tax expense					(12,577)
Profit / (loss) after tax					9,387
Segment profit / (loss) before income tax and IPO includes the following specific income and (expenses):					
Sales to external customers	94,294	141,876	9,642	-	245,812
Cost of sales	(37,411)	(48,986)	(4,126)	-	(90,523)
Net interest income/(expense)	(1,372)	(6,044)	-	-	(7,416)
Net other finance income/(expense)	(964)	(898)	(2,132)	1,753	(2,241)
Intercompany net finance income/(expense)	2,990	(2,990)	-	-	-
Intercompany recharges income/(expense)	7,495	(7,495)	-	-	-
Depreciation and software amortisation	(1,788)	(3,606)	(580)	-	(5,974)
Other income from reversal of UK Loan provision	8,346	-	-	(8,346)	-
Total current assets	372,966	21,363	3,127	(351,401)	46,055
Total non-current assets (excl deferred tax)	331,785	131,786	1,144	(194,828)	269,887
Total assets	704,751	153,149	4,271	(546,229)	315,942
Total current liabilities	(9,074)	(67,995)	(1,327)	52,389	(26,007)
Total non-current liabilities	(27,762)	(26,518)	-	-	(54,280)
Total liabilities	(36,836)	(94,513)	(1,327)	52,389	(80,287)

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.

### 30 Earnings per share

Due to the reverse acquisition referred to in note 2 and note 21 above, the capital structure of the Group changed in November 2009. 9,081,072,000 Milford Group Holdings Limited shares were on issue prior to the IPO. 200,000,000 shares were issued in the IPO by Kathmandu Holdings Limited. As a consequence there remains a significant variation in the weighted average number of shares between 2010 and 2011.

### **31 Earthquake disclosures**

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

As at the date of this report one store (Cashel St) remains closed and will be for the foreseeable future. A new store in Christchurch (Papanui) was opened on 23 March 2011 to mitigate the expected on-going closure of Cashel Street. A business interruption claim following the 22 February 2011 event has been lodged and is in process. A further material damage claim has been lodged to cover any loss of inventory and damage to fixtures and fittings in our Cashel Street store. No expected insurance proceeds from these claims have been recognised in the financial statements.

The company is not aware of any reason why its insurance would not cover all material costs or loss of profits in the current financial year that were incurred as a result of the earthquake.

### **32 Events occurring after the balance date**

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





### **Auditor's Independence Declaration**

As lead auditor for the review of Kathmandu Holdings Limited to the year ended 31 July 2011, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink that reads 'Robert Harris'.

Robert Harris  
Partner  
PricewaterhouseCoopers

Christchurch  
21 September 2011



## ***Independent Auditors' Report*** to the shareholders of Kathmandu Holdings Limited

### **Report on the Financial Statements**

We have audited the financial statements of Kathmandu Holdings Limited on pages 4 to 46, which comprise the balance sheets as at 31 July 2011, the income statements, statements of comprehensive income and statements of changes in equity and cash flow statements 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 2011 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 auditor considers the internal controls relevant to the Company and 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 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.

Other than in our capacity as auditors we have no relationship with, or interests in, Kathmandu Holdings Limited or any of its subsidiaries.



## ***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 2011, 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 2011:

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

### ***Restriction on Distribution or Use***

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

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', is written over a large, stylized 'P'.

Chartered Accountants  
21 September 2011

Christchurch