

# Appendix 1

## Kathmandu Holdings Limited

For the year ending 31 July 2010

### Statutory results

Reporting Period: 12 months ending 31 July 2010  
Previous Reporting Period: 12 months ending 31 July 2009

### Results for Announcement to the Market

		\$NZ'000
Revenues from continuing operations	Up 14.0% to	245,812
Profit from continuing operations after tax attributable to members	Up 69.4% to	25,242
Net profit for the period attributable to members	Down 37.0% to	9,387

For commentary on the results refer to the following Media Announcement.

### Net Tangible Assets per Security

	2010	2009
	\$	\$
Net tangible assets per security	-0.01	Nil

### Financial Information

The appendix 1 should be read in conjunction with the consolidated financial statements for the year ended 31 July 2010.

### 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).

### Dividends – Ordinary Shares

Dividends	Amount per Security NZ cents	Imputed amount per security NZ cents
Interim Dividend	Nil	Nil
Final Dividend	7.0	7.0
The record date for determining entitlements to the final dividend	15 November 2010	
Final Dividend payment date	25 November 2010	

**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 46 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  
24 September 2010**

**Kathmandu Holdings announces first full year result as  
listed company:**

### **NZ\$ DENOMINATED RESULT**

- **Sales up 14% to NZ\$245.8m,**
- **EBIT up 12.4% to NZ\$47.9m (excluding IPO costs),**
- **NPAT up NZ\$10.3m to NZ\$25.2m (excluding IPO costs)**

### **AU\$ DENOMINATED RESULT:**

- **Sales up 12% to A\$196.6m,**
- **EBIT up 10.4% to A\$38.3m (excluding IPO costs),**
- **NPAT up A\$8.1m to A\$20.2m (excluding IPO costs)**

### **FIRST DIVIDEND NZ 7.0 cents per share**

Kathmandu Holdings Limited (ASX/NZX:KMD) today announced a 12.4% increase in Earnings before interest and tax (EBIT) to NZ\$47.9 million, excluding the one-off costs associated with its initial public offering (IPO) of shares in November 2009. Net profit after tax (NPAT), increased from NZ\$14.9 million last year to NZ\$25.2 million for the year ended 31 July 2010, excluding the \$15.8m of one-off IPO costs and associated tax deductions.

Kathmandu Holdings Limited Chief Executive Officer, Peter Halkett, said Kathmandu had achieved a substantial improvement in sales and profit over last year's result. "We have grown sales and profit despite the well publicised difficult economic environment and the resulting impact on consumer demand in all our markets. We opened 15 further stores during the year and believe Kathmandu continues to have excellent growth opportunities. Given reasonably stable economic conditions we expect to again achieve improved results in the year ahead," said Mr Halkett.

## RESULTS OVERVIEW

Full Year Ending 31 July 2010	NZ \$m		Growth	
	FY10	FY09	NZ \$m	%
Sales	245.8	215.6	30.2	14.0%
EBITDA <sup>1</sup>	53.9	48.2	5.7	11.8%
EBIT <sup>1</sup>	47.9	42.6	5.3	12.4%
NPAT <sup>2</sup>	25.2	14.9	10.3	69.1%
NPAT	9.4	14.9	(5.5)	-36.9%

<sup>1</sup>Excluding IPO costs

<sup>2</sup> Excluding IPO costs and associated tax deductions

The reported FY10 result adjusted to compare with the pro-forma FY10 result detailed in Kathmandu's prospectus is provided below. Specifically the reported result for FY10 is adjusted for the estimated change in expenses that would have occurred in the period from 1 August 2009 to date of the IPO had the Group operated under the current public company structure rather than the previous private equity ownership. The adjustments are:

- Estimated increase in net operating costs (primarily public company costs) for the period (+\$0.4m);and
- Estimated reduction in finance costs for the period from the payback of \$85.7m of debt out of the IPO proceeds (-\$2.8m).

Full Year Ending 31 July 2010	NZ \$m		Difference	
	Actual	Prospectus	NZ \$m	%
Sales	245.8	240.0	5.8	2.4%
EBIT <sup>1</sup>	47.5	50.6	(3.1)	-6.1%
NPBT pro-forma <sup>2</sup>	41.2	44.8	(3.6)	-8.0%

<sup>1</sup>Excluding IPO costs

<sup>2</sup> Excluding IPO costs, adjusting for new debt levels and listed company costs

Other key highlights from the FY10 results include:

- Sales growth of more than 10% in all three countries Kathmandu trades in,
- Same store sales growth of 1.3%,
- Fifteen stores opened, ten in Australia and five in New Zealand.

Kathmandu Holdings Limited Chief Executive Officer, Peter Halkett, said the strong first half trading to 31 January was followed throughout most of 2010 by a challenging economic environment in all three countries Kathmandu trades in. "We were able to maintain double digit sales growth in all our markets. This was achieved despite negative same store sales performance in our second half year when general consumer confidence and spending were down on the previous year," said Mr Halkett.

## SALES, STORE NUMBERS AND GROSS PROFIT MARGIN

Full Year Ending 31 July 2010	NZ \$m FY10	% of Total	Total Sales Growth %	Same store <sup>1</sup> Growth %	Number of New Stores
Sales - New Zealand	94.3	38.4%	10.8%	0.6%	5
Sales - Australia	141.9	57.7%	15.2%	0.8%	10
Sales - United Kingdom	9.6	3.9%	16.7%	5.8%	0
<b>Total</b>	<b>245.8</b>	<b>100.0%</b>	<b>14.0%</b>	<b>1.3%</b>	<b>15</b>

<sup>1</sup> Same store growth 0.9% at constant exchange rates

Peter Halkett noted that “As we commented at the half year, we were cycling against a strong previous year’s trading period in our second half, in a retail environment that appeared generally variable and uncertain. It transpired that third quarter trading was adversely affected by both cycling the prior year Australian Government stimulus measures, and generally unfavourable warm weather during our Easter sale promotion. In the final quarter winter sales season same store sales performance in Australia was similar to last year, whilst New Zealand was below our expected sales targets. In New Zealand real consumer spending has reduced in the second half year, and in Australia sales were supported with higher than anticipated levels of promotional activity. UK trading generally met expectations and the small loss from that operation is similar to the previous year.”

Stores open 31 July	FY10	FY09
New Zealand	36	31
Australia	55	45
United Kingdom	6	6
Total Group	97	82

Kathmandu opened seven new stores in the second half year (following eight in the first half year and compared to two in the second half of FY09). The stores opened were:

- New Zealand: Tauranga, Gisborne and Hastings.
- Australia: Ballarat, Adelaide Tea Tree, Adelaide Harbour Town and Fremantle.

In addition, the Christchurch City Store was relocated to the Cashel Street Mall, and the Brisbane City Store was relocated to the Queens Mall precinct.

In total there were fifteen new stores opened in the year, three more than was anticipated in the prospectus. In the FY11 year four new stores are already confirmed to open and two further sites are under negotiation, all in Australia. Most of this year’s planned fifteen new stores will be opened in Australia, with three stores targeted in New Zealand. No further new stores are planned for the U.K. this financial year.

	ACTUAL	PROSPECTUS
Full Year Ended 31 July 2010	FY10	FY10
Gross profit margin %	63.2%	64.0%

Gross profit margin was down 120bps on last year and 80bps on prospectus forecast, reflecting both the product mix between equipment and apparel and the result of promotions and pricing levels across the year.

## OPERATING COSTS

Operating Expenses excluding depreciation and IPO costs	NZ \$m & % of Sales	
	FY10	FY09
Rent	25.6m	23.1m
<i>% of sales</i>	10.4%	10.7%
Other Operating costs	75.8m	67.5m
<i>% of sales</i>	30.8%	31.3%
<b>Total</b>	<b>101.4m</b>	<b>90.6m</b>
<i>% of sales</i>	41.3%	42.0%

Kathmandu's operating expenses reduced by 70 bps as a % of sales, reflecting operating leverage achieved from a stronger growth rate in sales compared to key operating costs. There were increases in expenses over the year in response to changing business circumstances, in particular to support the higher number of new stores opened and the promotional activity undertaken over the second half of the year.

The reduction in Gross Profit margin was partially offset by this decrease in operating expenses as a % of sales. The resulting EBITDA margin (excluding IPO costs) decreased from 22.4% to 21.9% and EBIT margin (excluding IPO costs) similarly decreased from 19.8% to 19.5%.

## OTHER FINANCIAL INFORMATION

Full Year Ended 31 July 2010	NZ\$ m	
	FY10	FY09
Operating Cashflow	32.6	24.7
Capital Expenditure	(13.6)	(8.1)
	19.0	16.6
Inventories	37.4	39.6
Net Debt (including cash)	49.3	155.7
Net Debt: Net Debt + Equity	17.1%	54.0%
Dividend proposed (cents per share)	7 cents	n/a

Capital expenditure was higher than the prospectus forecast of NZ\$12.6 million due to a larger than forecast store rollout (15 stores actual compared to 12 stores forecast).

Total inventories reduced by NZ\$2.2 million, and by 20% on a \$ per store basis. Mr Halkett commented that "The reduced level of stock available to sell in our winter

trading period that followed on from our strong first half year sales performance did result in some lost sale opportunities in the second half year. This is being addressed by enhanced inventory systems.”

Operating and Investing cashflow increased by NZ\$2.4 million for the year, despite the \$5.5 million increase in capital expenditure and the pre-IPO debt servicing costs under the previous capital structure.

## **DIVIDEND**

The Board is pleased to advise the first dividend will be 7 cents per share, an increase on the 6.7 cents forecast in the prospectus. Kathmandu Chairman James Strong said that “this payout, supported by our strong operating cashflows and representing an approximate payout ratio of 55% of ongoing NPAT, is within the range targeted by the Company in the future.”

## **FUTURE YEAR OUTLOOK**

Peter Halkett concluded by saying that “Kathmandu is confident that given reasonable economic conditions there will be further improvement in profitability in the year ahead. The impact of the economic environment on consumer confidence, and cost pressures both domestically and internationally are a challenge, however given our market position and brand strength we remain well placed to continue our growth. This will be underpinned in the year ahead by:

- Our ongoing new store rollout programme. 4 new sites in Australia are already confirmed thus far in FY11;
- Second year sales growth of stores opened during FY10;
- Accelerated expansion of the product range; and
- Our programme for refurbishing and relocating existing stores.

We continue to target a total store network of at least 150 locations in Australia and New Zealand, and we will explore further opportunities for expansion in these markets as they arise.”

*For further information please contact:*

*Peter Halkett, Chief Executive Officer or Mark Todd, Chief Financial Officer*

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**KATHMANDU HOLDINGS LIMITED**

**FINANCIAL STATEMENTS**

**For the year ended 31 July 2010**



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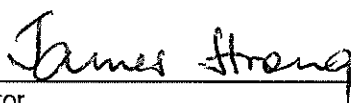
**DIRECTORS' APPROVAL OF FINANCIAL STATEMENTS  
FOR THE YEAR ENDING 31 JULY 2010**


**Authorisation for Issue**

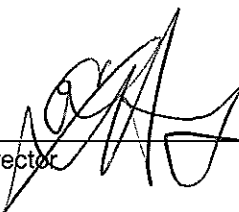
The Board of Directors authorised the issue of these Financial Statements on 24 September 2010.

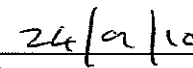
**Approval by Directors**

The Directors are pleased to present the Financial Statements of Kathmandu Holdings Limited for the year ending 31 July 2010 on pages 4 to 45.

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Date

For and on behalf of the Board of Directors

**KATHMANDU HOLDINGS LIMITED - ANNUAL REPORT 2010**  
**CONSOLIDATED INCOME STATEMENTS**  
**FOR THE YEAR ENDED 31 JULY 2010**

	Note	Group		Parent	
		2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Sales revenue		245,812	215,580	-	-
Cost of sales		(90,523)	(76,820)	-	-
Gross profit		155,289	138,760	-	-
Selling expenses	4	(77,556)	(66,380)	-	-
Administration and general expenses	4	(29,278)	(29,393)	(1,235)	-
		48,455	42,987	(1,235)	-
Finance income		2,277	696	(2)	-
Finance expenses		(11,934)	(18,534)	-	-
Finance costs - net	4	(9,657)	(17,838)	(2)	-
<b>Profit before income tax and costs associated with IPO</b>		38,798	25,149	(1,233)	-
Costs associated with IPO	5	(16,834)	-	(11,572)	-
<b>Profit / (loss) before income tax</b>		21,964	25,149	(12,805)	-
Income tax (expense)/benefit	6	(12,577)	(10,247)	446	-
<b>Profit / (loss) after income tax</b>		9,387	14,902	(12,359)	-
<b>Basic earnings per share</b>	30	0.3cps	0.2cps		
<b>Diluted earnings per share</b>	30	0.3cps	0.2cps		
<b>Weighted average basic ordinary shares outstanding ('000)</b>	30	2,754,829	9,096,006		
<b>Weighted average diluted ordinary shares outstanding ('000)</b>	30	2,755,608	9,096,006		

**KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2010**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 JULY 2010**

		<b>Group</b>		<b>Parent</b>	
	<b>Note</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
		<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>
<b>Profit / (loss) after tax</b>		9,387	14,902	(12,359)	-
Movement in cash flow hedge reserve	22	(2,580)	4,201	-	-
Movement in foreign currency translation reserve	22	(1,515)	(360)	-	-
<b>Other comprehensive income for the year, net of tax</b>		(4,095)	3,841	(12,359)	-
<b>Total comprehensive income for the year attributable to shareholders</b>		5,292	18,743	(12,359)	-

**KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2010**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 JULY 2010**

Group	Share Capital	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Employee Share Option Reserve	Retained earnings	Total Equity
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
<b>Balance as at 31 July 2008</b>	<b>96,359</b>	<b>(5,621)</b>	<b>4,355</b>	-	<b>19,063</b>	<b>114,156</b>
Total comprehensive income and expense	-	4,201	(360)	-	14,902	18,743
Dividends paid	-	-	-	-	-	-
Issue of share capital	186	-	-	-	-	186
Repurchase of share capital	(399)	-	-	-	-	(399)
Reverse acquisition share capital	-	-	-	-	-	-
Movement in employee share entitlement reserve	-	-	-	-	-	-
Movement in employee share option reserve	-	-	-	-	-	-
<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
Dividends paid	-	-	-	-	-	-
Issue of share capital	100,903	-	-	-	-	100,903
Movement in employee share entitlement reserve	-	-	-	-	-	-
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>

Parent	Share Capital	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Employee Share Option Reserve	Retained earnings	Total Equity
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
<b>Balance as at 31 July 2008</b>	-	-	-	-	-	-
Total comprehensive income and expense	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-
Issue of share capital	-	-	-	-	-	-
Repurchase of share capital	-	-	-	-	-	-
Reverse acquisition share capital	-	-	-	-	-	-
Movement in employee share entitlement reserve	-	-	-	-	-	-
Movement in employee share option reserve	-	-	-	-	-	-
<b>Balance as at 31 July 2009</b>	-	-	-	-	-	-
Total comprehensive income and expense	-	-	-	-	(12,359)	(12,359)
Dividends paid	-	-	-	-	-	-
Issue of share capital	422,137	-	-	-	-	422,137
Movement in employee share entitlement reserve	-	-	-	-	-	-
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>

**KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2010**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT 31 JULY 2010**

	Note	Group		Parent	
		2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	8	4,736	32,209	6	-
Trade and other receivables	9	3,903	2,629	181	-
Related party receivable	10	-	-	88,225	-
Derivative financial instruments	11	-	1,524	-	-
Inventories	12	37,416	39,613	-	-
Current tax assets		-	-	1	-
Employee share scheme loan	20	-	2,286	-	-
<b>Total current assets</b>		<b>46,055</b>	<b>78,261</b>	<b>88,413</b>	<b>-</b>
<b>Non-current assets</b>					
Property, plant and equipment	13	28,018	21,326	-	-
Intangible assets	14	241,825	243,855	-	-
Derivative financial instruments	11	44	828	-	-
Investment in subsidiaries	15	-	-	321,234	-
Deferred tax	16	3,472	5,115	445	-
<b>Total non-current assets</b>		<b>273,359</b>	<b>271,124</b>	<b>321,679</b>	<b>-</b>
<b>Total assets</b>		<b>319,414</b>	<b>349,385</b>	<b>410,092</b>	<b>-</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	17	16,891	17,879	68	-
Derivative financial instruments	11	4,819	4,636	-	-
Interest bearing liabilities	18	-	5,917	-	-
Current tax liabilities		4,297	6,010	-	-
<b>Total current liabilities</b>		<b>26,007</b>	<b>34,442</b>	<b>68</b>	<b>-</b>
<b>Non-current liabilities</b>					
Derivative financial instruments	11	315	218	-	-
Interest bearing liabilities	18	53,965	182,039	-	-
<b>Total non-current liabilities</b>		<b>54,280</b>	<b>182,257</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>80,287</b>	<b>216,699</b>	<b>68</b>	<b>-</b>
<b>Net assets</b>		<b>239,127</b>	<b>132,686</b>	<b>410,024</b>	<b>-</b>
<b>EQUITY</b>					
Contributed equity - ordinary shares	19	197,049	96,146	422,137	-
Reserves	22	(1,274)	2,575	246	-
Retained earnings	22	43,352	33,965	(12,359)	-
<b>Total equity</b>		<b>239,127</b>	<b>132,686</b>	<b>410,024</b>	<b>-</b>

**KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2010**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 JULY 2010**

	Note	Group		Parent	
		2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
<b>Cash flows from operating activities</b>					
<b>Cash was provided from:</b>					
Receipts from customers		244,422	215,230	-	-
Interest received		258	286	2	-
		<u>244,680</u>	<u>215,516</u>	<u>2</u>	<u>-</u>
<b>Cash was applied to:</b>					
Payments to suppliers and employees		189,699	167,646	(257)	-
Income tax paid		11,904	6,104	-	-
Interest paid		10,474	17,081	-	-
		<u>212,077</u>	<u>190,831</u>	<u>(257)</u>	<u>-</u>
<b>Net cash inflow from operating activities</b>	7	<u>32,603</u>	<u>24,685</u>	<u>(255)</u>	<u>-</u>
<b>Cash flows from investing activities</b>					
<b>Cash was provided from:</b>					
Proceeds from sale of property, plant and equipment		9	8	-	-
		<u>9</u>	<u>8</u>	<u>-</u>	<u>-</u>
<b>Cash was applied to:</b>					
Purchase of property, plant and equipment	13	12,823	7,313	-	-
Intangibles	14	746	827	-	-
		<u>13,569</u>	<u>8,140</u>	<u>-</u>	<u>-</u>
<b>Net cash (outflow) from investing activities</b>		<u>(13,560)</u>	<u>(8,132)</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		126,884	47,593	261	-
		<u>232,310</u>	<u>47,593</u>	<u>261</u>	<u>-</u>
<b>Cash was applied to:</b>					
Repurchase of shares		-	50	-	-
Costs associated with IPO	5	21,357	-	-	-
Repayment of loan advances		258,511	52,394	-	-
		<u>279,868</u>	<u>52,444</u>	<u>-</u>	<u>-</u>
<b>Net cash inflow / (outflow) from financing activities</b>		<u>(47,558)</u>	<u>(4,851)</u>	<u>261</u>	<u>-</u>
<b>Net increase / (decrease) in cash held</b>		<u>(28,515)</u>	<u>11,702</u>	<u>6</u>	<u>-</u>
Opening cash and cash equivalents		32,209	20,868	-	-
Effect of foreign exchange rates		1,042	(361)	-	-
<b>Closing Cash</b>	8	<u>4,736</u>	<u>32,209</u>	<u>6</u>	<u>-</u>

The parent company bank account was not opened until after the IPO, thus the parent cash flow statement only reflects cash movements after listing of Kathmandu Holdings Limited.

**KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2010**  
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## 1 General information

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

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

These audited consolidated financial statements have been approved for issue by the Board of Directors on 24 September 2010.

## 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 was recognised as a reverse acquisition and the consolidated financial statements have therefore been prepared as a continuation of the financial statements of the accounting acquirer, Milford Group Holdings Limited. Accordingly, consolidated comparative information is provided for the balance sheet and related information as at 31 July 2009 and for the income statement, cashflow statement, statement of changes in equity and related information for the year to 31 July 2009 of Milford Group Holdings Limited and its controlled entities.

As a result:

- The 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 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.
- The comparatives for the consolidated income statement, statement of cashflows and statement of changes in equity comprises the resulting consolidated statements of Milford Group Holdings Limited and its controlled 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.

### *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 statement of comprehensive income.

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 ('the 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 non-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: financial assets at fair value through profit or loss and loans and receivables. 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 remeasured 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 and redeemable preference 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 Plans allow 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.

### **(w) Dividends**

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



## (x) Cash Flow Statement

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

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

## (y) Changes in accounting policies

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

## 3 Standards, Interpretations and amendments to published standards

The following new standards and amendments to standards are mandatory and are required to be applied for the first time for financial years beginning on or after 1 July 2009.

### **NZ IAS 1: Presentation of Financial Statements (revised)**

The revised standard requires 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements; an income statement and a statement of comprehensive income.

### **NZ IFRS 7: Financial instruments – Disclosures (amendment)**

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2),
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

This change in accounting standard results in additional disclosure only.

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 (effective from 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.

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### 4 Expenses

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
<b>Profit / (loss) before income tax includes the following specific (income) and expenses:</b>				
<u>Depreciation</u>				
- Leasehold improvements	3,045	2,655	-	-
- Office, plant and equipment	394	399	-	-
- Furniture and fittings	1,239	990	-	-
- Computer equipment	669	658	-	-
- Motor vehicles	32	40	-	-
Total depreciation	5,379	4,742	-	-
<u>Amortisation</u>				
- Software	594	827	-	-
Total amortisation	594	827	-	-
(Gain) / Loss on sale of property, plant and equipment	290	123	-	-
Rental and operating lease expenses	25,610	23,080	-	-
Directors' fees	611	117	563	-
Donations	109	125	-	-
Employee entitlements:				
- Wages, salaries and other short term benefits	41,139	39,481	-	-
- Employee share option plan	246	-	246	-
<u>Finance Costs</u>				
Interest income	(258)	(286)	(2)	-
Interest expense	7,674	17,206	-	-
Other finance costs	1,674	515	-	-
Net exchange (gain) / loss on foreign currency borrowings	567	403	-	-
	9,657	17,838	(2)	-

Remuneration of auditors is detailed in Note 24.

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

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

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 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	-
	<u>21,357</u>	<u>-</u>	<u>16,095</u>	<u>-</u>
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	<u>21,357</u>	<u>-</u>	<u>16,095</u>	<u>-</u>
(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	-	11,191	-
	<u>18,306</u>	<u>-</u>	<u>15,714</u>	<u>-</u>

(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	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
<b>Income statement</b>				
Current income tax charge	10,791	10,910	(1)	-
Deferred income tax charge	1,786	(663)	(445)	-
Income tax charge / (credit) reported in income statement	<u>12,577</u>	<u>10,247</u>	<u>(446)</u>	<u>-</u>
<b>Reconciliation of effective tax charge</b>				
Profit before income tax	21,964	25,149	(12,805)	-
Income tax calculated at 30%	6,589	7,544	(3,841)	-
Adjustments to taxation:				
Adjustments due to different rate in different jurisdictions	76	50	-	-
Non-taxable income	(559)	(352)	(71)	-
Expenses not deductible for tax purposes	5,143	750	3,461	-
Effect of change in corporate tax rate	12	-	5	-
Utilisation of tax losses by group companies	-	-	-	-
Tax expense transferred to foreign currency translation reserve	(529)	-	-	-
Adjustments in respect of prior years	1,845	2,255	-	-
<b>Income tax charge / (credit) reported in income statement</b>	<u>12,577</u>	<u>10,247</u>	<u>(446)</u>	<u>-</u>

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 remeasurement of deferred tax balances has been brought to account in the financial statements for the year ended 31 July 2010.

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### Unrecognised tax losses

The group has estimated tax losses to carry forward from Kathmandu (U.K.) Limited of £4,705,832 (NZ\$10,120,069) (2009: £3,179,348; (NZ\$8,048,982) which can be carried forward to be offset against future profits generated within the UK.

### Imputation credits reconciliation

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
<b>Opening balance at 1 August</b>	<b>6,765</b>	<b>2,543</b>	-	-
Income tax – paid	9,372	4,210	-	-
Resident withholding tax on interest received	15	15	1	-
Dividends received	-	-	-	-
Income tax refund received	-	(3)	-	-
Dividends paid	-	-	-	-
Imputations lost on shareholding change	(11,945)	-	-	-
<b>Closing balance at 31 July</b>	<b>4,207</b>	<b>6,765</b>	<b>1</b>	<b>-</b>

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

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

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Profit after taxation	9,387	14,902	(12,359)	-
Movement in working capital:				
(Increase) / decrease in receivables and prepayments	(1,274)	(349)	(181)	-
(Increase) / decrease in inventories	2,198	(4,018)	-	-
Increase / (decrease) in trade and other payables	(988)	2,845	68	-
Increase / (decrease) in tax liability	(1,710)	4,808	-	-
	(1,774)	3,286	(113)	-
<i>Add non cash items:</i>				
Depreciation	5,379	4,742	-	-
Amortisation of intangibles	594	827	-	-
Revaluation of derivative financial instruments	4	2,143	-	-
(Increase) / decrease in deferred taxation	1,643	(1,338)	(445)	-
Cost of Share Options	246	-	246	-
Gain on sale of property, plant and equipment	-	-	-	-
Loss on sale of property, plant and equipment	290	123	-	-
	8,156	6,497	(199)	-
<i>Items classified as financing activities:</i>				
Costs associated with the IPO	16,834	-	-	-
Intercompany financing	-	-	12,416	-
Cash inflow from operating activities	32,603	24,685	(255)	-

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### 8 Cash and cash equivalents

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Cash on hand	143	124	-	-
Cash at bank	4,593	8,875	6	-
Short term deposits	-	23,210	-	-
	4,736	32,209	6	-

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

NZD	225	8,857	6	-
AUD	3,747	19,050	-	-
GBP	432	1,209	-	-
USD	321	3,081	-	-
EUR	11	12	-	-
	4,736	32,209	6	-

### 9 Trade and other receivables

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Trade receivables	-	-	-	-
Sundry debtors and prepayments	3,903	2,629	181	-
	3,903	2,629	181	-

#### Bad and doubtful trade receivables

The Group has recognised a loss of \$0 (2009: \$0) in respect of bad and doubtful trade receivables during the year ended 31 July 2010.

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

NZD	1,181	1,446	137	-
AUD	2,032	407	44	-
GBP	690	599	-	-
USD	-	177	-	-
	3,903	2,629	181	-

### 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 \$413,386 were paid to Chapman Tripp for services provided during the IPO, and \$112,274 for other services (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 \$98,000 were paid to Chalmers Properties Limited, a subsidiary of Port Otago Limited. John Harvey is a Director of both of these companies.

During the 2009 period the company paid fees to Goldman Sachs JB Were of \$7,007,804 in relation to their role as Joint Lead Managers of the IPO and for completion of the issue of shares. Goldman Sachs JB Were act as managers of various funds that were shareholders of Milford Group Holdings until the date of the IPO.

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

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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 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) \$88,225,280 (2009: \$0).
- Loans to the parent from subsidiaries \$0 (2009: \$0).

Material transactions between the parent and its subsidiaries were:

- Management fees charged to subsidiaries \$0 (2009: \$0)

### (a) Key Management Personnel

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Salaries	2,013	1,729	-	-
Other short-term employee benefits	217	2,661	-	-
Termination benefits	-	-	-	-
Employee share purchase plans	-	313	-	-
Employee share option plans	246	-	-	-
	<u>2,476</u>	<u>4,703</u>	<u>-</u>	<u>-</u>

Details of the remuneration of the directors and other key management personnel of the Group, for the current and prior financial years are set out in the following tables:

Name	2010	Short Term benefits		Post employment benefits			Share based payments		Proportion of Remuneration as equity related %	Proportion of Remuneration as performance related %
	Cash salary and fees \$	Cash bonus \$	Non-Monetary benefits \$	Super-annuation \$	Retirement Benefits \$	Share Options \$	Total \$			
<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>563,033</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>563,033</b>	<b>-</b>	<b>-</b>
<b>Executive Directors</b>										
Peter Halkett	586,447	-	7,076	-	-	122,726	17.1%	716,249	0.0%	-
Mark Todd <sup>1</sup>	282,552	50,000	2,938	7,193	-	35,178	9.3%	377,861	13.2%	-
<b>Total Executive Directors</b>	<b>869,000</b>	<b>50,000</b>	<b>10,013</b>	<b>7,193</b>	<b>-</b>	<b>157,903</b>	<b>14.4%</b>	<b>1,094,110</b>	<b>4.6%</b>	<b>-</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 <sup>2</sup>	200,582	141,699	1,033	6,846	-	17,633	4.8%	367,794	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%	172,036	0.0%	-
<b>Total Other Key Management Personnel</b>	<b>1,078,286</b>	<b>141,699</b>	<b>15,711</b>	<b>58,345</b>	<b>-</b>	<b>88,134</b>	<b>6.4%</b>	<b>1,382,174</b>	<b>10.3%</b>	<b>-</b>
<b>Total</b>	<b>2,510,319</b>	<b>191,699</b>	<b>25,724</b>	<b>65,538</b>	<b>-</b>	<b>246,037</b>	<b>8.1%</b>	<b>3,039,317</b>	<b>-</b>	<b>-</b>

1. one off payment in recognition of work undertaken during the IPO.

2. a one off payment in lieu of participation in previous Milford Group Holdings employee share scheme (refer note 20)

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Name	2009		Short Term benefits			Post employment benefits		Share based payments		Proportion of Remuneration as performance related
	Cash salary and fees	Cash bonus	Cash	Non-Monetary	Super-annuation	Retirement Benefits	Share Options	Proportion of Remuneration as equity related	Total	
	\$	\$	\$	\$	\$	\$	\$	%	\$	%
<b>Non-executive Directors</b>										
James Strong	-	-	-	-	-	-	-	-	-	-
John Harvey	-	-	-	-	-	-	-	-	-	-
John Holland	-	-	-	-	-	-	-	-	-	-
Sandra McPhee	-	-	-	-	-	-	-	-	-	-
<b>Total Non-executive Directors</b>	-	-	-	-	-	-	-	-	-	-
<b>Executive Directors</b>										
Peter Halkett	525,000	1,290,107	4,547	-	-	-	-	-	1,819,654	70.9%
Mark Todd	235,000	514,697	1,625	4,610	-	-	-	-	755,932	68.1%
<b>Total Executive Directors</b>	<b>760,000</b>	<b>1,804,804</b>	<b>6,173</b>	<b>4,610</b>	-	-	-	-	<b>2,575,586</b>	<b>70.1%</b>
<b>Other Key Management Personnel</b>										
Matt Spencer	290,010	498,395	6,413	29,001	-	-	-	-	823,819	60.5%
Michelle Adams	23,077	10,000	-	2,308	-	-	-	-	35,385	28.3%
Tamalin Morton	280,239	338,580	-	28,024	-	-	-	-	646,843	52.3%
Caleb Nicolson	145,000	2,342	-	2,342	-	-	-	-	149,685	1.6%
Bryan Moore	140,649	-	1,289	-	-	-	-	-	141,938	0.0%
<b>Total Other Key Management Personnel</b>	<b>878,975</b>	<b>849,317</b>	<b>7,702</b>	<b>61,675</b>	-	-	-	-	<b>1,797,668</b>	<b>47.2%</b>
<b>Total</b>	<b>1,638,975</b>	<b>2,654,121</b>	<b>13,874</b>	<b>66,284</b>	-	-	-	-	<b>4,373,255</b>	-

### (b) Non Executive Directors

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Total directors fees	611	117	563	-
Share purchase plans	-	-	-	-
Share option plans	-	-	-	-
	611	117	563	-

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

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

Directors fees for other Group companies were paid to the following shareholding entities on whose behalf the directors appointed prior to the IPO acted:

- Goldman Sachs JB Were Trans-Tasman Private Equity Fund 07 Trust A
- Goldman Sachs JB Were Trans-Tasman Private Equity Fund 07 Trust B
- Goldman Sachs JB Were Trans-Tasman Private Equity Fund 07 - Trust C
- Goldman Sachs JB Were – Employee Fixed Trusts
- TTPE 07 No. 1 Ltd
- Quadrant Private Equity Management Pty Ltd
- Special Managed Investment Company No. 80 Ltd
- Quadrant Private Equity Services Pty Ltd

**11 Derivative financial instruments**

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
<b>Asset</b>				
Interest rate swaps - cash flow hedge	44	-	-	-
Foreign exchange contracts - cash flow hedge	-	2,352	-	-
	44	2,352	-	-
Less non-current portion:				
Interest rate swaps - cash flow hedge	44	-	-	-
Foreign exchange contracts - cash flow hedge	-	828	-	-
Current portion	-	1,524	-	-
<b>Liabilities</b>				
Interest rate swaps - cash flow hedge	315	3,835	-	-
Foreign exchange contracts - cash flow hedge	4,819	1,019	-	-
	5,134	4,854	-	-
Less non-current portion:				
Interest rate swaps - cash flow hedge	315	-	-	-
Foreign exchange contracts - cash flow hedge	-	218	-	-
Current portion	4,819	4,636	-	-

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 \$39,844,720 (2009: \$139,115,071). The fixed interest rates range between 4.73% and 5.25% (2009: 6.40% and 7.05%).

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\$53,700,000, NZ\$80,033,820 (2009 : US\$59,700,000, NZ\$91,623,114).

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

**12 Inventories**

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Trading stock	28,984	35,062	-	-
Goods in transit	8,432	4,551	-	-
	37,416	39,613	-	-



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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 2008</b>						
Cost or valuation	17,599	2,833	5,332	6,016	369	32,149
Accumulated depreciation	(5,507)	(1,352)	(1,844)	(4,010)	(187)	(12,900)
Closing net book value	12,092	1,481	3,488	2,006	182	19,249
<b>Year ended 31 July 2009</b>						
Opening net book value	12,092	1,481	3,488	2,006	182	19,249
Additions	5,212	358	1,549	195	-	7,314
Disposals	(129)	(79)	(50)	(34)	(4)	(296)
Depreciation charge	(2,655)	(399)	(990)	(658)	(40)	(4,742)
Exchange differences	(128)	(20)	(37)	(11)	(3)	(199)
Closing net book value	14,392	1,341	3,960	1,498	135	21,326
<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

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## 14 Intangible assets

Group	Goodwill NZ\$'000	Brand NZ\$'000	Software NZ\$'000	Total NZ\$'000
<b>As at 31 July 2008</b>				
Cost or valuation	76,677	168,948	1,595	247,220
Accumulated amortisation and impairment	(1,271)	-	(510)	(1,781)
Closing net book value	75,406	168,948	1,085	245,439
<b>Year ended 31 July 2009</b>				
Opening net book value	75,406	168,948	1,085	245,439
Additions	-	-	767	767
Disposals	-	-	-	-
Amortisation	-	-	(827)	(827)
Exchange differences	-	(1,493)	(31)	(1,524)
Closing net book value	75,406	167,455	994	243,855
<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

### Impairment tests for goodwill and brand

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

Group	Goodwill		Brand	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
New Zealand	28,654	28,654	51,000	51,000
Australia	46,752	46,752	114,285	116,455
	75,406	75,406	165,285	167,455

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

The valuation methodologies used were:

- Discounted cash flow (DCF) (Group and both cash generating units)
- Capitalisation of EBIT (Group and both cash generating units)
- Current market value (Group only)

Discounted cash flow valuations were calculated using projected 5 year future cash flows, based on Board approved

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business plans. Cash flows beyond 5 years have been extrapolated using a terminal growth rate of 2.5% and a pre-tax discount rate of 15.1% (NZ CGU – 15.4%, AU CGU – 14.7%).

Capitalisation of EBIT has been calculated using an EBIT multiple of 9 times representing the average of the assessed New Zealand (8.0) and Australia (10.0) multiples and is considered reflective of the markets in which Kathmandu operates. Comparable New Zealand listed retailers EBIT ratios ranged from between 6.0 – 9.3 with an average of 7.9. Australian listed retailers EBIT ratios ranged from between 5.6 – 13.5 with an average of 9.8.

Current market value has been assessed using Kathmandu market capitalisation as at 31 July 2010, with an adjustment made for the term debt level and assumed dividend funding required. This is considered to provide a conservative estimate of the enterprise value.

All methodologies used confirmed that there was no impairment of goodwill and brand during the year (2009: 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.

### 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:

Name of entity	Equity holding	
	2010	2009
Milford Group Holdings Limited	100%	(1)
Milford Equities Limited	(2)	100%
Kathmandu Group Limited	(2)	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.

(1) Milford Group Holdings Limited was the ultimate parent company in 2009

(2) On 31 July 2010, Milford Equities Limited and Kathmandu Group Limited were amalgamated into Milford Group Holdings Limited and ceased to exist.

The principal activities of the subsidiaries are:

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

### Interest in subsidiaries

	2010 NZ\$	2009 NZ\$
Milford Group Holdings Limited	321,233,808	n/a
Milford Equities Limited	-	1
Kathmandu Group Limited	-	-
Kathmandu Limited	-	-
Kathmandu Pty Limited	-	-
Kathmandu (U.K.) Limited	-	-
	<hr/> 321,233,808	<hr/> 1

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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 period and prior year.

	Group					
	Tax	Employee	Other timing			Total
	depreciation NZ\$'000	obligations NZ\$'000	Losses NZ\$'000	differences NZ\$'000	Reserves NZ\$'000	NZ\$'000
As at 31 July 2008	13	420	756	2,693	(105)	3,777
Charge to the income statement	(2)	787	(347)	225	-	663
Charge to other comprehensive income					675	675
As at 31 July 2009	11	1,207	409	2,918	570	5,115
Charge 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

	Parent					
	Tax	Employee	Other timing			Total
	Depreciation NZ\$'000	obligations NZ\$'000	Losses NZ\$'000	differences NZ\$'000	Reserves NZ\$'000	NZ\$'000
As at 31 July 2008	-	-	-	-	-	-
Charge to the income statement	-	-	-	-	-	-
As at 31 July 2009	-	-	-	-	-	-
Charge to the income statement	-	69	365	11	-	445
As at 31 July 2010	-	69	365	11	-	445

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	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Deferred taxation assets:				
- Deferred tax asset to be recovered after more than 12 months	1,289	2,992	69	-
- Deferred tax asset to be recovered within 12 months	2,411	2,729	376	-
Deferred taxation liabilities:				
- Deferred tax liability to be recovered after more than 12 months	-	-	-	-
- Deferred tax liability to be recovered within 12 months	(228)	(606)	-	-
	3,472	5,115	445	-

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### Movements

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

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Opening balance	5,115	3,777	-	-
Income statement charge	(1,818)	663	445	-
Tax charged directly to equity	175	675	-	-
Closing balance	3,472	5,115	445	-

### Effective tax rate reconciliation:

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Remeasurement of deferred tax - company tax rate change from 30% to 28%	(12)	-	(5)	-
Remeasurement of deferred tax - removal of depreciation on buildings	-	-	-	-
	(12)	-	(5)	-

### 17 Trade and other payables

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Trade payables	4,463	2,879	-	-
Employee entitlements	2,818	4,373	-	-
Sundry creditors and accruals	9,610	10,627	68	-
	16,891	17,879	68	-

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

NZD	6,084	7,621	58	-
AUD	9,853	9,143	10	-
GBP	954	1,115	-	-
USD	-	-	-	-
	16,891	17,879	68	-

### 18 Interest bearing liabilities

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Current portion	-	5,917	-	-
Non-current portion	53,965	182,039	-	-
Total term loans	53,965	187,956	-	-

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The bank loan is part of a facility agreement with ANZ National Bank, Bank of New Zealand and Commonwealth 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 2010.

The current interest rates, prior to hedging, on the term loans ranged between 4.24% - 5.81% (2009: 4.83% - 5.69%).

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
The maturity analysis of interest bearing liabilities is:				
Payable within 1 year	-	5,918	-	-
Payable 1 to 2 years	-	8,477	-	-
Payable 2 to 3 years	53,965	173,561	-	-
Payable 3 to 4 years	-	-	-	-
	53,965	187,956	-	-

### 19 Contributed equity - ordinary shares

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Ordinary shares fully paid (\$)	197,049	96,146	422,137	-
Balance at beginning of year	96,146	96,359	-	-
Shares issued during the year	105,426	-	426,660	-
Less capital raising costs (refer note 5)	(4,523)	-	(4,523)	-
Shares issued under Employee Share Scheme	-	186	-	-
Shares repurchased	-	(399)	-	-
Balance at end of year	197,049	96,146	422,137	-

#### Number of authorised shares

	Group		Parent	
	2010 '000	2009 '000	2010 '000	2009 '000
Ordinary shares on hand at beginning of the year	9,081,072	9,098,712	-	-
Shares issued during the year	200,000	-	200,000	-
Shares issued under Employee Share Scheme	-	17,640	-	-
Shares repurchased	(9,081,072)	(35,280)	-	-
Ordinary shares on hand at end of the year	200,000	9,081,072	200,000	-

#### (a) Ordinary shares

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 and subsequent reverse acquisition transaction there are now 200,000,000 ordinary issued shares in Kathmandu Holdings Limited and these are classified as equity.

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

### *(b) Shares issued and repurchased under Milford Group Holdings Limited Employee Share Scheme*

During the 2009 year 17,640,000 shares were issued under the Employee Share Scheme at fair value and were funded by way of loan.

During the 2009 year 35,280,000 shares were repurchased, 4,410,000 for cash with the remainder being off-set against loans under the Employee Share Scheme.

## 20 Employee Share Option Plan

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 2010 the Company issued 1,119,976 options to Executive Directors and senior executives. The fair value of these options is estimated as \$518,590 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% NPAT dividend payout ratio has been factored into the valuation of the options based on current management budgets. The expected volatility has 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 \$246,037 which represents this amortisation.

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

	2010		2009	
	Average exercise price \$ per share	Options '000	Average exercise price \$ per share	Options '000
Balance at beginning of year	-	-	-	-
Issued	2.1333	1,120	-	-
<b>Balance at end of year</b>	<b>2.1333</b>	<b>1,120</b>	<b>-</b>	<b>-</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	Number
October 2010	October 2013	\$2.1333	373,324
October 2011	October 2013	\$2.1333	373,324
October 2012	October 2013	\$2.1333	373,328
			<u>1,119,976</u>

### **Milford Group Holdings Limited Employee Share Scheme**

Prior to the IPO of Kathmandu Holdings Limited, Milford Group Holdings Limited operated an Employee Share Scheme. The Employee Share Scheme provided the opportunity for key management to acquire equity in Milford Group Holdings Limited. The price which management paid for the shares was set at fair value on the date the employee and Milford Group Holdings Limited entered into the agreement. The purchase of shares by the employee was partly funded by a limited recourse, interest free advance from Milford Group Holdings Limited. Any dividends payable on the shares were applied towards the repayment of the advance. As at 31 July 2009 the balance of advances outstanding from employees under the Scheme was \$2,286,430 and was recognised as an asset.

The IPO of Kathmandu Holdings Limited, and the Company's offer to purchase the shares issued by Milford Group Holdings Limited constituted a Liquidity Event under the terms of the Milford Group Holdings Limited Employee Share Scheme. All of the shares issued under the Scheme have thus been disposed of, the loans owing to Milford Group Holdings Limited have been repaid in conjunction with the IPO and the scheme is at an end.

## **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	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
(i) Cash flow hedging reserve				
Opening balance	(1,420)	(5,621)	-	-
Revaluation - gross	(2,908)	3,259	-	-
Deferred tax	175	675	-	-
Transfer to net profit - gross	153	267	-	-
Closing balance	(4,000)	(1,420)	-	-
(ii) Foreign Currency Translation Reserve				
Opening balance	3,995	4,355	-	-
Currency translation differences	(1,515)	(360)	-	-
Closing balance	2,480	3,995	-	-
(iii) Share Option Reserve				
Opening balance	-	-	-	-
Current year amortisation	246	-	246	-
Closing balance	246	-	246	-
Total Reserves	(1,274)	2,575	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.

*(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	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Opening retained earnings	33,965	19,063	-	-
Profit / (loss) for the year	9,387	14,902	(12,359)	-
Balance at 31 July	43,352	33,965	(12,359)	-

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### 23 Dividends

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Prior year final dividend paid	-	-	-	-
Current year interim dividend paid	-	-	-	-
Dividends paid (\$nil per share and 2009; \$nil)	-	-	-	-

### 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	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
<b>(a) Audit services</b>				
PricewaterhouseCoopers				
Statutory Audit	102	79	55	-
Half year review	38	-	38	-
Other assurance services	5	5	-	-
Total remuneration for audit services	145	84	93	-
<b>(b) Other services</b>				
Accounting standards advice	59	16	-	-
IPO due diligence	533	-	495	-
Total remuneration for other services	592	16	495	-
Total auditor remuneration	737	100	588	-

### 25 Contingent liabilities

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Liabilities outstanding under letters of credit	1,767	3,337	-	-
Rent Guarantees	7,643	7,406	-	-
Financial Guarantees	1,430	1,490	-	-

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

### 26 Contingent assets

There are no contingent assets in 2010 (2009: nil).

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### 27 Commitments

#### (a) Capital commitments

Capital commitments contracted for at balance date are:

	Group		Parent	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Property, plant and equipment	440	-	-	-
Intangible assets	339	-	-	-
	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	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Due within 1 year	23,834	20,594	-	-
Due within 1-2 years	21,459	19,936	-	-
Due within 2-5 years	46,580	44,607	-	-
Due after 5 years	17,760	23,313	-	-
	109,634	108,450	-	-

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 Australian dollar, United States dollar and the UK pound. 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 85% 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. According to the Group treasury policy, interest rate swaps must be in place for no less than 50% and no greater than 80% of the existing term debt. 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	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Total secured loans	53,695	187,956	-	-
less principal covered by interest rate swaps	(39,845)	(139,115)	-	-
Principal on floating interest	13,850	48,841	-	-

Interest rates on loans currently range from 4.24% - 5.81% (2009: 4.83% - 5.69%). 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 \$315,293 (2009: \$3,835,535).

#### *Summarised sensitivity analysis*

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

A sensitivity of 10% for foreign exchange risk has been selected. While it is unlikely that an equal 10% movement of the New Zealand dollar would be observed against all currencies an overall sensitivity of 10% is reasonable given the exchange rate volatility observed on an historic basis for the preceding five year period and market expectation for potential future movements.

A sensitivity of 1% has been selected for interest rate risk. The 1% is based on reasonably possible changes over a

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financial year, using the observed range of historical data for the preceding five year period.

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

Group	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	-	603	-	(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	141	-	(141)	-	-	(2,117)	-	1,732
		141	-	(141)	-	(865)	(2,117)	412	1,732
<b>Total increase / decrease</b>		107	603	(107)	(668)	(504)	(10,439)	412	8,517

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 2009</b>									
Derivative Financial Instruments (asset) / liability	2,502	-	(993)	-	1,051	-	(10,210)	-	8,319
<b>Financial assets</b>									
Cash	32,209	(232)	-	232	-	1,758	-	(1,758)	-
<b>Financial liabilities</b>									
Trade payables	2,879	-	-	-	-	(153)	-	153	-
Borrowings	187,956	488	-	(488)	-	-	(14,105)	-	11,451
		488	-	(488)	-	(153)	(14,105)	153	11,451
<b>Total increase / decrease</b>		256	(993)	(256)	1,051	1,605	(24,315)	(1,605)	19,770

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	
	2010 NZ\$'000	2009 NZ\$'000	2010 NZ\$'000	2009 NZ\$'000
Cash and cash equivalents	4,736	32,209	-	-
Trade receivables	-	-	-	-
Sundry debtors and prepayments	3,903	2,629	-	-
Related party receivables	-	-	-	-
Loans to employees under employee share scheme	-	2,286	-	-
	<b>8,639</b>	<b>37,124</b>	-	-

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 \$125,201,863 (2009 : \$222,779,979) 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 2010</b>				
Trade and other payables	16,891	-	-	-
Borrowings	-	-	53,695	-
	<b>16,891</b>	-	<b>53,695</b>	-
<b>Group 2009</b>				
Trade and other payables	17,879	-	-	-
Borrowings	18,640	20,605	177,711	-
	<b>36,519</b>	<b>20,605</b>	<b>177,711</b>	-

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

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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.

	<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 2010</b>			
Forward foreign exchange contracts			
- Inflow	74,098	-	-
- Outflow	(80,033)	-	-
Net Inflow/(Outflow)	(5,935)	-	-
Net settled derivatives – interest rate swaps			
Net (outflow)	(315)	-	-
<b>At 31 July 2009</b>			
Forward foreign exchange contracts			
- Inflow	60,579	31,209	-
- Outflow	(60,177)	(31,446)	-
Net Inflow/(Outflow)	402	(237)	-
Net settled derivatives – interest rate swaps			
Net (outflow)	(3,835)	-	-

### 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 2010</b>				
Cash and cash equivalents	4,736	-	-	4,736
Trade and other receivables	3,902	-	-	3,902
Derivative financial instrument assets	-	44	-	44
Total financial assets	8,638	44	-	8,682
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>At 31 July 2009</b>				
Cash and cash equivalents	32,209	-	-	32,209
Trade and other receivables	2,629	-	-	2,629
Derivative financial instrument assets	-	2,352	-	2,352
Total financial assets	34,838	2,352	-	37,190
Trade and other payables	-	-	17,879	17,879
Interest bearing liabilities	-	-	187,956	187,956
Derivative financial instrument liabilities	-	4,854	-	4,854
Total financial liabilities	-	4,854	205,835	210,689
<b>Parent</b>				
<b>At 31 July 2010</b>				
Cash and cash equivalents	6	-	-	6
Trade and other receivables	181	-	-	181
Related party receivable	88,225	-	-	88,225
Total financial assets	88,412	-	-	88,412
Trade and other payables	-	-	68	68
Related party payable	-	-	-	-
Total financial liabilities	-	-	68	68
<b>At 31 July 2009</b>				
Trade and other receivables	-	-	-	-
Related party receivable	-	-	-	-
Total financial assets	-	-	-	-
Trade and other payables	-	-	-	-
Related party payable	-	-	-	-
Total financial liabilities	-	-	-	-



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### 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 2010	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	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 costs 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	372,751	21,363	3,127	(351,186)	46,055
Total non-current assets	333,521	133,522	1,144	(194,828)	273,359
Total assets	706,272	154,885	4,271	(564,014)	319,414
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)

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31 July 2009	New Zealand \$'000	Australia \$'000	United Kingdom \$'000	Elimination \$'000	Total \$'000
Segment profit /(loss) before income tax and IPO	14,154	11,010	(2,492)	-	25,149
Costs associated with IPO					-
Income tax expense					(10,247)
Profit/(loss) after tax					14,902
Segment profit / (loss) before income tax and IPO includes the following specific income and (expenses):					
Sales to external customers	85,133	120,953	9,494	-	215,580
Cost of sales	(32,368)	(40,254)	(4,198)	-	(76,820)
Net interest income/(expense)	(6,693)	(10,235)	8	-	(16,920)
Net other finance income/(expense)	(799)	3	(122)	-	(918)
Intercompany net finance income/(expense)	(996)	996	-	-	-
Intercompany recharges income/(expense)	6,670	(6,670)	-	-	-
Depreciation and software amortisation	(1,652)	(3,306)	(611)	-	(5,569)
Other income from reversal of UK Loan provision	-	-	-	-	-
Total current assets	183,397	63,400	4,115	(174,937)	75,975
Total non-current assets	302,317	131,491	1,871	(162,268)	273,411
Total assets	485,714	194,891	5,986	(337,205)	349,386
Total current liabilities	(189,732)	(13,598)	(14,394)	183,283	(34,441)
Total non-current liabilities	(55,183)	(127,074)	-	-	(182,257)
Total liabilities	(244,915)	(140,672)	(14,394)	183,283	(216,698)

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 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 is a significant variation in the weighted average number of shares between 2009 and 2010.

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### 31 Comparison against Prospectus Forecast

Actual amounts presented are from the full year financial statements and as such include part year costs of the pre-IPO financing arrangements (and higher debt levels), along with part year reflection of the higher costs due to operating as a listed company. Where noted below, the prospectus forecast reflected a normalised view to portray the equivalent expected full year result.

<b>Summary Consolidated Income Statement For the year ended 31 July 2010</b>	<b>Actual 2010 NZ\$'000</b>	<b>Forecast 2010 NZ\$'000</b>
Sales revenue	245,812	240,042
EBIT before costs associated with IPO	47,888	50,583
Net Profit after Income Tax	9,387	18,944

- Sales revenue was higher than forecast due to opening more new stores than forecast and better than expected first half year sales performance.
- EBIT before costs associated with IPO was lower than forecast due to a lower gross margin achieved (63.2% compared with 64.0% forecast) along with higher than forecast operating expenses.
- Net Profit after Income tax was lower than forecast primarily due higher than expected costs associated with the IPO (\$16.8m vs \$10.3m forecast), in addition to the above mentioned gross margin performance and higher operating expenses.

<b>Summary Consolidated Statement of Cashflows <sup>1</sup> For the year ended 31 July 2010</b>	<b>Actual 2010 NZ\$'000</b>	<b>Forecast 2010 NZ\$'000</b>
EBITDA	53,862	57,106
Change in working capital	(1,774)	1,937
Change in other non-cash items <sup>2</sup>	2,635	(3,070)
Capital expenditure	(13,560)	(12,558)
<b>Operating cash flow after capital expenditure</b>	<b>41,163</b>	<b>43,415</b>
Net interest paid (including facility fees) <sup>3</sup>	(10,216)	(7,403)
Income taxes paid <sup>4</sup>	(11,904)	(9,900)
<b>Net operating cash flow (as presented in Prospectus forecast)</b>	<b>19,043</b>	<b>26,112</b>

Reconciled to Consolidated statement of cash flows:

Net cash inflow from Operating activities	32,603
Net cash inflow / (outflow) from investing activities	(13,560)
<b>Net operating cash flow (as presented in Prospectus forecast)</b>	<b>19,043</b>

Normalisation Adjustments contained in the Prospectus forecast.:

1. The Statement of consolidated cash flow is presented in the same format as per the prospectus to provide ease of comparison.
2. EBITDA excludes tax and interest: however, the working capital movement includes movement in the interest accrual and in current tax. These are adjusted in the non-cash items line which also includes items such as gains/losses from unrealised foreign exchange fluctuations, property plant and equipment sales and the unamortised portion of derivative settlements in relation to purchase of inventories.
3. Prospectus forecast presented an annualised view of expected full year costs post IPO. The pro-forma adjustment included in the prospectus relating to financing fees amounted to \$2.8m as per section 7.13.2 of the prospectus.
4. The prospectus forecast excluded \$2.0m of expected taxes payable in FY2010 in relation to the amendment of a prior year tax return.

- EBITDA variance to forecast is due to the Gross Margin and operating expense variance as discussed regarding EBIT previously.
- Change in working capital variance is due to a higher than expected decrease in inventories and a decrease in the tax liability due to a lower than forecast net profit after tax (as discussed above).
- Capital expenditure is higher than forecast due to opening three more stores than forecast. Interest paid is higher than forecast due to the financial statements reflecting part year costs of the pre-IPO existing banking arrangements (and higher debt levels).
- Income taxes paid are higher than the forecast due to a payment of \$1.8m relating to the amendment of a prior year tax return. The prospectus forecast excluded this payment in the normalised forecast presented.

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

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

## **Auditors' Report**

To the shareholders of Kathmandu Holdings Limited

We have audited the financial statements on pages 4 to 45. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 July 2010 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 10 to 18.

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 has been undertaken so that we might state to the Company's shareholders those matters 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 opinion we have formed.

### **Directors' Responsibilities**

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 31 July 2010 and their financial performance and cash flows for the year ended on that date.

### **Auditors' Responsibilities**

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

### **Basis of Opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacities as auditors and providers of other assurance services.

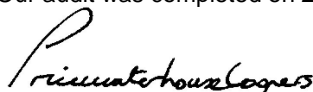
### **Unqualified Opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 4 to 45:
  - (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 Group as at 31 July 2010 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 23 September 2010 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Christchurch