



**Kathmandu Holdings Limited**  
**New Zealand Stock Exchange Listing Rules**  
**Disclosure**  
**Full Year Report**  
**For the year ending 31 July 2018**

**Contents**

Appendix 1  
Media Announcement  
Financial Statements  
Auditors' Report

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**Kathmandu Holdings Limited**

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# Appendix 1



## Kathmandu Holdings Limited

### Results for announcement to the market

Reporting Period: 12 months ending 31 July 2018  
Previous Reporting Period: 12 months ending 31 July 2017

	Amount (000's)	Percentage change
Revenues from ordinary activities	\$NZ 497,437	11.7%
Profit from ordinary activities after tax attributable to security holder	\$NZ 50,532	32.8%
Net profit attributable to security holders	\$NZ 50,532	32.8%

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

Dividends (NZ \$)	Amount per security	Imputed amount per security
Interim Dividend (paid 22 June 2018)	\$NZ 0.04	-
Final Dividend	\$NZ 0.11	\$NZ 0.04277778

Record Date for Final Dividend	19 November 2018
Payment date for Final Dividend	30 November 2018

#### Financial Information

The Appendix 1 should be read in conjunction with the consolidated financial statements for the year ended 31 July 2018.

	2018 \$	2017 \$
Net tangible assets per security	0.13	0.24

#### Accounting Standards

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

#### Information on Audit or Review

The report is based on financial statements which have been audited. The audit report, which is unqualified, is on page 45 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. Control has been gained over Kathmandu US Holdings LLC (20 March 2018) and Oboz Footwear LLC (4 April 2018). Further information is available on page 35 and 36 of the consolidated financial statements.

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## Kathmandu Holdings Limited FY2018 full year results

- Record year for sales, profit, operating cash flow and full-year dividend payout
- Sales increased by 11.7% to NZ\$497.4m
- Gross profit increased by 14.2% to NZ\$315.5m
- EBIT increased by 30.9% to NZ\$74.6m
- NPAT increased by 32.9% to NZ\$50.5m
- Obōz acquisition successful
- \$1,000 one-off bonus to all Kathmandu permanent team members

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced net profit after tax (NPAT) of NZ\$50.5 million for the year ended 31 July 2018, an increase of NZ\$12.5 million compared with the prior year. Earnings before interest and tax (EBIT) increased by 30.9% to NZ\$74.6 million for the same period. A final dividend of NZ 11.0 cents per share will be paid, bringing the full year payout to a record NZ 15.0 cents per share.

### Summary of Results

	NZD \$m		Change	
	FY2018	FY2017	NZD \$m	%
Sales	497.4	445.3	52.1	11.7%
Gross Profit	315.5	276.2	39.3	14.2%
EBITDA	89.8	70.8	19.0	26.8%
EBIT	74.6	57.0	17.6	30.9%
<b>NPAT</b>	<b>50.5</b>	<b>38.0</b>	<b>12.5</b>	<b>32.9%</b>

Chief Executive Xavier Simonet commented:

“We were delighted to achieve record profits this year as we balanced sales growth with gross margin improvement. Sales growth was supported by the success of our key product groups, improved promotional execution, inspiring digital content, and an enhanced in-store customer experience. Top line growth combined with a focus on cost control, resulted in excellent profit growth.”

### **Obōz acquisition**

During the year we acquired Obōz, a premium US based outdoor footwear brand.

Chief Executive Xavier Simonet commented:

“The Obōz acquisition provides us with the opportunity to accelerate our international growth, and diversify our product mix, geography, and channels to market. Kathmandu and Obōz are well aligned in core principles of brand development, innovation, quality, customer service, and sustainability.

As we grow our Kathmandu wholesale business, we welcome Obōz, an outdoor footwear wholesaler with a customer base primarily in North America. We are excited by the opportunity to develop complementary international wholesale channels for both the Obōz and Kathmandu brands.”

### **Sales, Gross Margin and Inventory**

#### **Sales**

Sales grew by 9.6% in Australia, our largest market. First half New Zealand sales were impacted by lower levels of clearance stock, however this was more than offset by gross margin improvement, with New Zealand gross profit 2% above FY2017. Online sales now comprise 9.4% of Kathmandu sales.

<b>Sales Growth</b>	<b>1H FY2018 Same stores</b>	<b>2H FY2018 Same stores</b>	<b>FY2018 Same stores</b>	<b>FY2018 Total sales</b>
Australia (AUD)	1.9%	11.6%	<b>7.5%</b>	<b>9.6%</b>
New Zealand (NZD)	-6.3%	1.2%	<b>-2.4%</b>	<b>-2.3%</b>
<b>Kathmandu Group (excl. Obōz) (constant exchange rates)</b>	-0.8%	8.5%	<b>4.4%</b>	<b>6.1%</b>

Note: Same store sales are for the 52 weeks ending 29 July 2018

#### **Gross Margin**

Gross margin increased 1.4% points from 62.0% in FY2017 to 63.4% in FY2018, which sits above the long-term target range 61% to 63%. Increased full price sell through and higher average selling prices contributed to the improvement.

### **Inventory levels**

Total inventory levels increased by \$22.7m this year to \$111.9m. Included in this balance is \$17.9m to support Kathmandu international and Obōz.

	<b>FY2018 NZD \$m</b>	<b>FY2017 NZD \$m</b>	<b>Change NZD \$m</b>	<b>Change %</b>
Inventory	111.9	89.2	22.7	25.4%

### **Operating Expenses**

Operating expenses decreased by 0.7% as a percentage of sales compared to FY2017. They include \$2.0m transaction costs for the Obōz acquisition, plus \$2.0m for an exceptional bonus to Kathmandu employees who are not already on a bonus scheme.

Xavier Simonet commented: “We are delighted to pay out an exceptional \$1,000 one-off bonus to all Kathmandu permanent team members who are not part of an incentive program. This is an acknowledgement of the contribution of all Kathmandu team members to the continued performance and success of our company over the last 3 years. FY18 is a record year in terms of sales, profit, and operating cash flow and we believe it is important to recognise the role our team has played.”

Efficiencies were achieved in distribution labour following last year’s automation investment in Australia, targeted promotional spend, and retail labour productivity improvements.

Rent increased by NZ\$5.2m. Excluding \$1.4m year-on-year exchange rate translation movement, the constant currency rent increase was 6.1%.

### **Operating expenses (excluding depreciation)**

	<b>FY2018 NZD \$m</b>	<b>FY2017 NZD \$m</b>
Rent	67.4	62.2
% of Sales	13.6%	14.0%
Other operating expenses	158.3	143.2
% of Sales	31.8%	32.1%
<b>Total operating expenses</b>	<b>225.7</b>	<b>205.4</b>
% of Sales	45.4%	46.1%

### **Other Financial Information**

We generated record operating cash flow of \$75.6m this year, and invested NZ\$16.7m in capital projects, primarily in expanding and updating our store network.

Net debt was \$31.4m at year end, following \$60m additional bank funding for the Obōz acquisition in April 2018.

	<b>FY2018</b> <b>NZD \$m</b>	<b>FY2017</b> <b>NZD \$m</b>
Capital Expenditure	16.7	13.3
Operating Cash Flow	75.6	67.3
Net Debt	31.4	6.9
Net Debt to Equity	6.9%	2.1%

### **Final Dividend**

A final dividend of NZ 11.0 cents per share will be paid to shareholders on the register as at 19 November 2018. This brings the full year dividend to 15.0 cents per share, a 15.4% increase on the prior year. The dividend will be fully franked for Australian shareholders and fully imputed for New Zealand shareholders.

### **Outlook**

Chief Executive Xavier Simonet commented:

“It is highly motivating for our team to have achieved three years of strong profit growth in our core Australasian business. Our customers have reacted positively to innovative products and engaging brand content. Being an inspiring brand and bringing to market original, sustainable, engineered and adaptive products represent Kathmandu’s company ethos. Continuing to drive sales growth in our core market remains a key management focus.

It’s an exciting time for the business as we welcome Obōz to the Group and accelerate our international growth. In Kathmandu and Obōz, we have two great brands with significant growth potential in North America and Europe.”

ENDS



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**Kathmandu Holdings Limited**  
**FINANCIAL STATEMENTS**  
**31 July 2018**



## Introduction and Table of Contents

### **In this section ...**

The financial statements have been presented in a style which attempts to make them less complex and more relevant to shareholders. We have grouped the note disclosures into six sections: 'Basis of Preparation', 'Results for the Year', 'Operating Assets and Liabilities', 'Capital Structure and Financing Costs', 'Group Structure' and 'Other Notes'. Each section sets out the accounting policies applied in producing the relevant notes. The purpose of this format is to provide readers with a clearer understanding of what drives financial performance of the Group. The aim of the text boxes is to provide commentary on each section, or note, in plain English.

### **Keeping it simple ...**

Notes to the financial statements provide information required by accounting standards or Listing Rules to explain a particular feature of the financial statements. The notes which follow will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the annual report and the financial statements.

Directors' Approval of Consolidated Financial Statements	3
Consolidated Statement of Comprehensive Income	4
Consolidated Statement of Changes in Equity	5
Consolidated Balance Sheet	6
Consolidated Statement of Cash Flows	7
Notes to the Financial Statements	9
Section 1: Basis of Preparation	9
Section 2: Results for the Year	11
Section 3: Operating Assets and Liabilities	18
Section 4: Capital Structure and Financing Costs	26
Section 5: Group Structure	35
Section 6: Other Notes	37
Auditors' Report	45

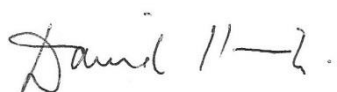
## Directors' Approval of Consolidated Financial Statements For the Year Ended 31 July 2018

### Authorisation for Issue

The Board of Directors authorised the issue of these Consolidated Financial Statements on 18 September 2018.

### Approval by Directors

The Directors are pleased to present the Consolidated Financial Statements of Kathmandu Holdings Limited for the year ended 31 July 2018 on pages 4 to 44.



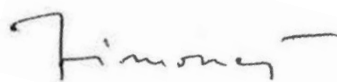
18 September 2018

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David Kirk

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Date



18 September 2018

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Xavier Simonet

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Date

For and on behalf of the Board of Directors

## Consolidated Statement of Comprehensive Income For the Year Ended 31 July 2018

	Section	2018 NZ\$'000	2017 NZ\$'000
Sales		497,437	445,348
Cost of sales		(181,961)	(169,165)
Gross profit		<u>315,476</u>	<u>276,183</u>
Selling expenses		(155,677)	(143,740)
Administration and general expenses		(70,038)	(61,613)
		<u>(225,715)</u>	<u>(205,353)</u>
<b>Earnings before interest, tax, depreciation and amortisation</b>		<b>89,761</b>	<b>70,830</b>
Depreciation and amortisation	3.2/3.3	(15,151)	(13,826)
<b>Earnings before interest and tax</b>		<b>74,610</b>	<b>57,004</b>
Finance income		47	28
Finance expenses		(1,106)	(2,058)
Finance costs - net	4.1.1	(1,059)	(2,030)
		<u>73,551</u>	<u>54,974</u>
<b>Profit before income tax</b>		<b>73,551</b>	<b>54,974</b>
Income tax expense	2.3	(23,019)	(16,935)
		<u>50,532</u>	<u>38,039</u>
<b>Profit after income tax</b>		<b>50,532</b>	<b>38,039</b>
<b>Other comprehensive income that may be recycled through profit or loss:</b>			
Movement in cash flow hedge reserve	4.3.2	8,820	209
Movement in foreign currency translation reserve	4.3.2	10,518	209
		<u>19,338</u>	<u>418</u>
<b>Other comprehensive income for the year, net of tax</b>		<b>19,338</b>	<b>418</b>
<b>Total comprehensive income for the year attributable to shareholders</b>		<b>69,870</b>	<b>38,457</b>
<b>Basic earnings per share</b>	2.4	23.9cps	18.7cps
<b>Diluted earnings per share</b>	2.4	23.7cps	18.5cps
<b>Weighted average basic ordinary shares outstanding ('000)</b>	2.4	211,261	203,587
<b>Weighted average diluted ordinary shares outstanding ('000)</b>	2.4	213,187	205,409

## Consolidated Statement of Changes in Equity For the Year Ended 31 July 2018

	Share Capital NZ\$'000	Cash Flow Hedge Reserve NZ\$'000	Foreign Currency Translation Reserve NZ\$'000	Share Based Payments Reserve NZ\$'000	Retained Earnings NZ\$'000	Total Equity NZ\$'000
<b>Balance as at 31 July 2016</b>	<b>200,191</b>	<b>(5,531)</b>	<b>(19,702)</b>	<b>692</b>	<b>136,033</b>	<b>311,683</b>
Profit after tax	-	-	-	-	38,039	38,039
Other comprehensive income	-	209	209	-	-	418
Dividends paid	-	-	-	-	(24,179)	(24,179)
Issue of share capital	18	-	-	(18)	-	-
Share based payment expense	-	-	-	1,139	-	1,139
<b>Balance as at 31 July 2017</b>	<b>200,209</b>	<b>(5,322)</b>	<b>(19,493)</b>	<b>1,813</b>	<b>149,893</b>	<b>327,100</b>
Profit after tax	-	-	-	-	50,532	50,532
Other comprehensive income	-	8,820	10,518	-	-	19,338
Dividends paid	-	-	-	-	(27,208)	(27,208)
Issue of share capital	49,673	-	-	(971)	-	48,702
Share based payment expense	-	-	-	1,489	-	1,489
Deferred tax on share-based payment transactions	-	-	-	429	-	429
<b>Balance as at 31 July 2018</b>	<b>249,882</b>	<b>3,498</b>	<b>(8,975)</b>	<b>2,760</b>	<b>173,217</b>	<b>420,382</b>

## Consolidated Balance Sheet As At 31 July 2018

	Section	2018 NZ\$'000	2017 NZ\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3.1.2	8,146	3,537
Trade and other receivables	3.1.3	13,453	6,284
Inventories	3.1.1	111,929	89,206
Derivative financial instruments	4.2	5,076	-
Other financial assets	3.1.4	22,180	-
<b>Total current assets</b>		<b>160,784</b>	<b>99,027</b>
<b>Non-current assets</b>			
Property, plant and equipment	3.2	63,514	61,026
Intangible assets	3.3	390,319	279,014
<b>Total non-current assets</b>		<b>453,833</b>	<b>340,040</b>
<b>Total assets</b>		<b>614,617</b>	<b>439,067</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	3.1.5	72,770	56,735
Derivative financial instruments	4.2	156	7,034
Current tax liabilities		9,968	3,475
Other financial liabilities	3.1.6	21,994	-
<b>Total current liabilities</b>		<b>104,888</b>	<b>67,244</b>
<b>Non-current liabilities</b>			
Derivative financial instruments	4.2	62	265
Interest bearing liabilities	4.1	39,500	10,431
Deferred tax	2.3	49,785	34,027
<b>Total non-current liabilities</b>		<b>89,347</b>	<b>44,723</b>
<b>Total liabilities</b>		<b>194,235</b>	<b>111,967</b>
<b>Net assets</b>		<b>420,382</b>	<b>327,100</b>
<b>EQUITY</b>			
Contributed equity - ordinary shares	4.3.1	249,882	200,209
Reserves	4.3.2	(2,717)	(23,002)
Retained earnings		173,217	149,893
<b>Total equity</b>		<b>420,382</b>	<b>327,100</b>

## Consolidated Statement of Cash Flows For the Year Ended 31 July 2018

	Section	2018 NZ\$'000	2017 NZ\$'000
<b>Cash flows from operating activities</b>			
<b>Cash was provided from:</b>			
Receipts from customers		502,703	444,100
Income tax received		156	-
Interest received		47	28
		<u>502,906</u>	<u>444,128</u>
<b>Cash was applied to:</b>			
Payments to suppliers and employees		406,508	360,122
Income tax paid		18,710	14,571
Interest paid		2,087	2,162
		<u>427,305</u>	<u>376,855</u>
<b>Net cash inflow from operating activities</b>		<b><u>75,601</u></b>	<b><u>67,273</u></b>
<b>Cash flows from investing activities</b>			
<b>Cash was provided from:</b>			
Proceeds from sale of property, plant and equipment		-	1
		<u>-</u>	<u>1</u>
<b>Cash was applied to:</b>			
Purchase of property, plant and equipment	3.2	14,300	11,419
Purchase of intangibles	3.3	2,394	1,857
Acquisition of subsidiaries	5.1	82,746	-
Investments in other financial assets	3.1.4	22,180	-
		<u>121,620</u>	<u>13,276</u>
<b>Net cash outflow from investing activities</b>		<b><u>(121,620)</u></b>	<b><u>(13,275)</u></b>
<b>Cash flows from financing activities</b>			
<b>Cash was provided from:</b>			
Proceeds of loan advances		148,815	90,330
Proceeds from share issues		48,702	-
		<u>197,517</u>	<u>90,330</u>
<b>Cash was applied to:</b>			
Dividends paid		27,208	24,179
Repayment of loan advances		119,907	123,533
		<u>147,115</u>	<u>147,712</u>
<b>Net cash inflow / (outflow) from financing activities</b>		<b><u>50,402</u></b>	<b><u>(57,382)</u></b>
<b>Net increase / (decrease) in cash held</b>		<b><u>4,383</u></b>	<b><u>(3,384)</u></b>
Opening cash and cash equivalents		3,537	6,891
Effect of foreign exchange rates		226	30
<b>Closing cash and cash equivalents</b>	3.1.2	<b><u>8,146</u></b>	<b><u>3,537</u></b>

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

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

Section	2018 NZ\$'000	2017 NZ\$'000
Profit after taxation	50,532	38,039
<i>Movement in working capital:</i>		
(Increase) / decrease in trade and other receivables	5,272	(1,249)
(Increase) / decrease in inventories	(13,873)	6,283
Increase / (decrease) in trade and other payables	10,884	5,596
Increase / (decrease) in tax liability	6,405	2,257
	<u>8,688</u>	<u>12,887</u>
<i>Add non cash items:</i>		
Depreciation	3.2 11,576	10,630
Amortisation of intangibles	3.3 3,575	3,196
Foreign currency translation of working capital balances	(431)	(816)
Increase / (decrease) in deferred taxation	(1,944)	733
Employee share based remuneration	6.4 1,489	1,139
Loss on sale of property, plant and equipment	3.2 2,116	1,465
	<u>16,381</u>	<u>16,347</u>
<b>Cash inflow from operating activities</b>	<b><u>75,601</u></b>	<b><u>67,273</u></b>

### Reconciliation of movement in term loans

<b>Balance 31 July 2017</b>	10,431
Net cash flow movement	28,908
Foreign exchange movement	161
<b>Balance 31 July 2018</b>	<b><u>39,500</u></b>

## Notes to the Financial Statements

### Section 1: Basis of Preparation

**In this section ...**

This section sets out the Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

#### 1.1 General information

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

The Company is a limited liability company incorporated and domiciled in New Zealand. Kathmandu Holdings Limited is a company registered under the Companies Act 1993 and is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The address of its registered office is 223 Tuam Street, Central Christchurch, Christchurch.

The Company is listed on the NZX and ASX.

The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Listing Rules.

These audited consolidated financial statements have been approved for issue by the Board of Directors on 18 September 2018.

#### 1.2 Summary of significant accounting policies

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice. 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 financial statements are presented in New Zealand dollars, which is the Company's functional currency and Group's presentation currency.

##### 1.2.1 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.

##### **Basis of Consolidation**

The financial statements reported are for the consolidated "Group" which is the economic entity comprising Kathmandu Holdings Limited and its subsidiaries.

The Group is designated as a for profit entity for financial reporting purposes.

Subsidiaries are consolidated from the date on which control is obtained to the date on which control is lost.

In preparing the Group financial statements, all material intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

##### **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. Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.



## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

Further explanation as to estimates and assumptions made by the Group can be found in the following notes to the financial statements:

<b>Area of Estimation</b>	<b>Section</b>
Business Combinations – provisional purchase price allocation	5.1
Goodwill – assumptions underlying recoverable value	3.3
Inventory – estimates of obsolescence	3.1.1
Fair value of derivatives – assumptions underlying fair value	4.2

### **Foreign currency translation**

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

All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity.

## Section 2: Results for the Year

### In this section ...

This section focuses on the results and performance of the Group. On the following pages you will find disclosures explaining the Group's results for the year, segmental information, taxation and earnings per share.

### 2.1 Segment information

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 four operating segments, depicting the four geographical regions the Group operates in. The New Zealand segment has been represented to exclude holding company balances. Other represents holding companies and consolidation eliminations.

The Group operates in four geographical areas: New Zealand, Australia, North America and Rest of World. The North American segment was established during the financial year upon acquisition of Oboz Footwear LLC.

31 July 2018	Australia NZ\$'000	New Zealand NZ\$'000	North America NZ\$'000	Rest of World NZ\$'000	Other NZ\$'000	Total NZ\$'000
Total segment sales	335,876	143,167	16,785	6,932	-	502,760
Inter-segment sales	(2,193)	(190)	(666)	(2,274)	-	(5,323)
Sales from external customers	<b>333,683</b>	<b>142,977</b>	<b>16,119</b>	<b>4,658</b>	-	<b>497,437</b>
<b>EBITDA</b>	<b>57,744</b>	<b>35,154</b>	<b>2,768</b>	<b>(685)</b>	<b>(5,220)</b>	<b>89,761</b>
Depreciation and software amortisation	8,687	6,125	309	30	-	15,151
<b>EBIT</b>	<b>49,057</b>	<b>29,029</b>	<b>2,459</b>	<b>(715)</b>	<b>(5,220)</b>	<b>74,610</b>
Income tax expense	14,566	8,129	707	(225)	(158)	23,019
<b>Total segment assets</b>	<b>246,178</b>	<b>297,700</b>	<b>127,373</b>	<b>8,591</b>	<b>(65,225)</b>	<b>614,617</b>
Total assets includes:						
Non-current assets	177,540	23,943	103,325	-	149,025	453,833
Additions to non-current assets	11,298	5,352	103,314	-	-	119,964
<b>Total segment liabilities</b>	<b>82,916</b>	<b>59,060</b>	<b>27,975</b>	<b>21,227</b>	<b>3,057</b>	<b>194,235</b>
<b>31 July 2017</b>	<b>Australia NZ\$'000</b>	<b>New Zealand NZ\$'000</b>	<b>North America NZ\$'000</b>	<b>Rest of World NZ\$'000</b>	<b>Other NZ\$'000</b>	<b>Total NZ\$'000</b>
Total segment sales	298,013	146,779	-	3,338	-	448,130
Inter-segment sales	(1,581)	(407)	-	(794)	-	(2,782)
Sales from external customers	<b>296,432</b>	<b>146,372</b>	-	<b>2,544</b>	-	<b>445,348</b>
<b>EBITDA</b>	<b>39,317</b>	<b>36,001</b>	-	<b>(713)</b>	<b>(3,775)</b>	<b>70,830</b>
Depreciation and software amortisation	7,783	6,039	-	3	1	13,826
<b>EBIT</b>	<b>31,534</b>	<b>29,962</b>	-	<b>(716)</b>	<b>(3,776)</b>	<b>57,004</b>
Income tax expense	8,792	8,595	-	(225)	(227)	16,935
<b>Total segment assets</b>	<b>233,082</b>	<b>235,834</b>	-	<b>849</b>	<b>(30,698)</b>	<b>439,067</b>
Total assets includes:						
Non-current assets	171,273	25,529	-	1	143,237	340,040
Additions to non-current assets	9,662	3,614	-	-	-	13,276
<b>Total segment liabilities</b>	<b>150,209</b>	<b>22,097</b>	-	<b>12,356</b>	<b>(72,695)</b>	<b>111,967</b>

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

EBITDA represents earnings before income taxes (a non-GAAP measure), excluding interest income, interest expense, depreciation and amortisation, as reported in the financial statements. EBIT represents EBITDA less depreciation and amortisation. EBITDA and EBIT are key measurement criteria on which operating segments are reviewed by the Chief Operating Decision Maker (the Executive Management Team).

The Group operates in one industry being the sale of outdoor clothing, footwear and equipment.

Revenue is allocated based on the country in which the customer is located. The Group has no reliance on any single major customer.

Costs recharged between Group companies are calculated on normal commercial terms. The default basis of allocation is % of revenue with other bases being used where appropriate.

Assets / liabilities are allocated based on where the assets / liabilities are located.

### 2.2 Profit before tax

#### Accounting policies

##### 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) Sale of goods

Sale of goods are recognised at point of sale for retail customers and when product is dispatched to the customer for online and wholesale sales. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of the sale (excluding GST).

#### Operating expenses

##### Employee entitlements

	2018	2017
	NZ\$'000	NZ\$'000
Wages, salaries and other short term benefits	90,024	82,935
Employee share based remuneration	1,489	1,139

The number of full-time equivalent employees (excluding short-term contractors), as at 31 July was:

	2018	2017
Australia	762	762
New Zealand	468	506
United Kingdom	5	5
United States of America	21	-

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

Liabilities for wages and salaries, including non-monetary benefits and annual 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.

# KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

## Rental and operating leases

The Group is a 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 statement of comprehensive income on a straight-line basis over the period of the lease.

	2018	2017
	NZ\$'000	NZ\$'000
Rental and operating lease expenses	67,429	62,205

Rent expenses reported in these financial statements relate to non-cancellable operating leases. The future commitments on these leases are as follows:

	2018	2017
	NZ\$'000	NZ\$'000
Due within 1 year	55,707	50,496
Due within 1-2 years	45,728	44,055
Due within 2-5 years	86,729	81,146
Due after 5 years	35,013	45,808
	<u>223,177</u>	<u>221,505</u>

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.

## 2.3 Taxation

### Keeping it simple ...

This section lays out the tax accounting policies, the current and deferred tax charges or credits in the year (which together make up the total tax charge or credit in the statement of comprehensive income), a reconciliation of profit before tax to the tax charge and the movements in deferred tax assets and liabilities.

### Accounting policies

#### Current and deferred income tax

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax liability is not recognised if it arises from the initial recognition of goodwill. 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.

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

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, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### Goods and Services Tax (GST)

The statement of comprehensive income 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.

### Taxation – Statement of comprehensive income

The total taxation charge in the income statement is analysed as follows:

	2018 NZ\$'000	2017 NZ\$'000
Current income tax charge	24,964	16,829
Deferred income tax charge / (credit)	(1,945)	106
Income tax charge reported in statement of comprehensive income	23,019	16,935

In order to understand how, in the statement of comprehensive income, a tax charge of \$23,019,193 (2017: \$16,934,513) arises on profit before income tax of \$73,550,592 (2017: \$54,973,991), the taxation charge that would arise at the standard rate of New Zealand corporate tax is reconciled to the actual tax charge as follows:

	2018 NZ\$'000	2017 NZ\$'000
Profit before income tax	73,551	54,974
Income tax calculated at 28%	20,594	15,393
Adjustments to taxation:		
Adjustments due to different rate in different jurisdictions	1,011	578
Non-taxable income	(246)	(16)
Expenses not deductible for tax purposes	725	1,064
Tax legislation enacted for employee share schemes	(87)	-
Utilisation of tax losses by group companies	(26)	-
Tax expense transferred to foreign currency translation reserve	1,173	(164)
Adjustments in respect of prior years	(125)	80
Income tax charge reported in statement of comprehensive income	23,019	16,935

Adjustments for prior periods primarily arise where an outcome is obtained on certain tax matters which differs from expectations held when the related provision was made. Where the outcome is more favourable than the provision made, the difference is released, lowering the current year tax charge. Where the outcome is less favourable than the provision, an additional charge to the current year tax will occur.

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

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

	2018 NZ\$'000	2017 NZ\$'000
Movement in cash flow hedge reserve before tax	12,180	837
Tax impact relating to cash flow hedge reserve	(3,360)	(628)
Movement in cash flow hedge reserve after tax	8,820	209
Foreign currency translation reserve before tax	10,518	209
Tax credit / (charge) relating to foreign currency translation reserve	-	-
Movement in foreign currency translation reserve after tax	10,518	209
Total other comprehensive income before tax	22,698	1,046
Total tax credit / (charge) on other comprehensive income	(3,360)	(628)
Total other comprehensive income after tax	19,338	418
Current tax	-	-
Deferred tax	(3,360)	(628)
Total tax credit / (charge) on other comprehensive income	(3,360)	(628)

### Unrecognised tax losses

The Group has estimated tax losses to carry forward from Kathmandu (U.K.) Limited of £10,172,139 (NZ\$19,561,807) (2017: £11,177,874 (NZ\$19,854,128)) which can be carried forward to be offset against future profits generated within the UK. These losses do not expire and no benefit has been recognised in respect to these losses.

### Imputation credits

	2018 NZ\$'000	2017 NZ\$'000
Imputation credits available for use in subsequent reporting periods based on a tax rate of 28%	4,424	3,602

The above amounts represent the balance of the imputation account as at the end of July 2018, adjusted for:

- Imputation credits that will arise from the payment of the amount of the provision for income tax;
- Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The balance of Australian franking credits able to be used by the Group in subsequent periods as at 31 July 2018 is A\$3,891,706 (2017: A\$4,501,155).

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

### Taxation – Balance sheet

The following are the major deferred taxation liabilities and assets recognised by the Group and movements thereon during the current and prior year:

	<b>Tax depreciation</b>	<b>Employee obligations</b>	<b>Brand</b>	<b>Foreign exchange</b>	<b>Other temporary differences</b>	<b>Reserves</b>	<b>Total</b>
	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>
As at 31 July 2016	(161)	1,370	(43,518)	749	5,928	2,385	(33,247)
Recognised in the statement of comprehensive income	209	349	-	(931)	267	-	(106)
Recognised in other comprehensive income	-	-	-	-	-	(628)	(628)
Exchange differences	-	3	(62)	(3)	16	-	(46)
As at 31 July 2017	48	1,722	(43,580)	(185)	6,211	1,757	(34,027)
Recognised in the statement of comprehensive income	157	942	71	(212)	987	-	1,945
Recognised in other comprehensive income	-	-	-	-	-	(3,360)	(3,360)
Recognised directly in equity	-	429	-	-	-	-	429
Exchange differences	-	30	(1,612)	(5)	169	-	(1,418)
Deferred tax on business combinations (5.1)	-	-	(13,354)	-	-	-	(13,354)
As at 31 July 2018	205	3,123	(58,475)	(402)	7,367	(1,603)	(49,785)

The deferred tax balance relates to:

- Property, plant and equipment temporary differences arising on differences in accounting and tax depreciation rates
- Employee benefit accruals
- Kathmandu brand and Oboz brand and customer relationship
- Unrealised foreign exchange gain/loss on intercompany loan (Kathmandu Pty Ltd)
- Realised gain/loss on foreign exchange contracts not yet charged in the statement of comprehensive income
- Inventory provisioning
- Temporary differences arising from landlord contributions and rent free periods
- Temporary differences on the unrealised gain/loss in hedge reserve
- Employee share schemes
- Other temporary differences on miscellaneous items

## 2.4 Earnings per share

### ■ Keeping it simple ...

Earnings per share ('EPS') is the amount of post-tax profit attributable to each share.

Basic EPS is calculated by dividing the profit after tax attributable to equity holders of the Company of \$50,531,599 (2017: \$38,039,478) by the weighted average number of ordinary shares in issue during the year of 211,260,697 (2017: 203,587,322).

Diluted EPS reflects any commitments the Group has to issue shares in the future that would decrease EPS. In 2018, these are in the form of share options / performance rights. To calculate the impact it is assumed that all share options are exercised / performance rights taken, and therefore, adjusting the weighted average number of shares.

	<b>2018</b>	<b>Restated</b>
	<b>'000</b>	<b>2017</b>
	<b>'000</b>	<b>'000</b>
Weighted average number of shares in issue	211,261	203,587
Adjustment for:		
- Share options / performance rights	1,926	1,822
	<u>213,187</u>	<u>205,409</u>

The Group has restated the prior year basic and diluted EPS to reflect the impact of the implied bonus element on shares issued from the institutional share placement on 26 March 2018 and share purchase plan on 20 April 2018 (Note 4.3.1). Shares were issued at an issue price of NZ\$2.16, representing a 10% discount to the closing price on the NZX of NZ\$2.40 on 19 March 2018.



## Section 3: Operating Assets and Liabilities

### ■ *In this section ...*

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are addressed in Section 4. Deferred tax assets and liabilities are shown in note 2.3.

### ■ *Keeping it simple ...*

Working capital represents the assets and liabilities the Group generates through its trading activity. The Group therefore defines working capital as inventory, cash, trade and other receivables, other financial assets, trade and other payables and other financial liabilities.

### 3.1 Working capital

#### 3.1.1 Inventory

##### Accounting policies

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. Inventory is considered in transit when the risk and rewards of ownership have transferred to the Group.

The Group assesses the likely residual value of inventory. Stock provisions are recognised for inventory which is expected to sell for less than cost and also for the value of inventory likely to have been lost to the business through shrinkage between the date of the last applicable stocktake and balance sheet date. In recognising the provision for inventory, judgement has been applied by considering a range of factors including historical results, stock shrinkage trends and product lifecycle.

Inventory is broken down into trading stock and goods in transit below:

	2018 NZ\$'000	2017 NZ\$'000
Trading stock	89,802	76,678
Goods in transit	22,127	12,528
	<u>111,929</u>	<u>89,206</u>

Inventory has been reviewed for obsolescence and a provision of \$627,362 (2017: \$337,970) has been made.

#### 3.1.2 Cash and cash equivalents

	2018 NZ\$'000	2017 NZ\$'000
Cash on hand	178	172
Cash at bank	7,951	3,352
Short term deposits	17	13
	<u>8,146</u>	<u>3,537</u>

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

NZD	298	996
AUD	1,931	2,096
GBP	789	205
USD	4,905	163
EUR	223	77
	<u>8,146</u>	<u>3,537</u>

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

### 3.1.3 Trade and other receivables

#### Accounting policies

Trade receivables are recognised initially at the value of the invoice sent to the customer and subsequently at the amounts considered recoverable (amortised cost). The collectability of trade receivables is reviewed on an on-going basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The provision currently held is \$212,610 (2017: nil).

	2018 NZ\$'000	2017 NZ\$'000
Trade receivables	8,251	240
Other receivables and prepayments	5,202	6,044
	<u>13,453</u>	<u>6,284</u>

Other receivables and prepayments includes balances in relation to landlord incentives.

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

NZD	1,959	3,176
AUD	2,918	2,933
USD	8,488	-
GBP	88	175
	<u>13,453</u>	<u>6,284</u>

### 3.1.4 Other financial assets

	2018 NZ\$'000	2017 NZ\$'000
Other financial assets	22,180	-

Other financial assets relates to the USD \$15,000,000 million term deposit and associated earned interest held in escrow in relation to the Oboz acquisition (Note 5.1).

### 3.1.5 Trade and other payables due within one year

#### Accounting policies

Trade payables are recognised at the value of the invoice received from a supplier. The carrying value of trade payables is considered to approximate fair value as amounts are unsecured and are usually paid by the 30th of the month following recognition.

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.

	2018 NZ\$'000	2017 NZ\$'000
Trade payables	24,001	14,402
Employee entitlements	13,957	10,315
Sundry creditors and accruals	33,659	31,401
Provisions	1,153	617
	<u>72,770</u>	<u>56,735</u>

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

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

	2018	2017
	NZ\$'000	NZ\$'000
NZD	12,648	11,129
AUD	45,419	38,968
GBP	925	624
EUR	32	5
USD	13,746	6,009
	<u>72,770</u>	<u>56,735</u>

Provisions primarily relate to the restoration of leased properties. These provisions are expected to be fully utilised within the next 12 months.

### 3.1.6 Other financial liabilities

	2018	2017
	NZ\$'000	NZ\$'000
Other financial liabilities	21,994	-

Other financial liabilities relates to the fair value of the USD\$15,000,000 million contingent earn out in relation to the Oboz acquisition (Note 5.1).

### 3.1.7 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.

Risk	Exposure arising from	Monitoring	Management
Credit risk	Cash and cash equivalents Trade and other receivables Other financial assets	Credit ratings, aging analysis and review of exposure within regular terms of trade	Credit is given to customers following obtaining credit rating information, confirming references and setting appropriate credit limits

Concentration of credit risk is within the geographic segment of North America, where the 5 largest customers represent 54% of trade receivables.

### 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):

	2018	2017
	NZ\$'000	NZ\$'000
Cash and cash equivalents	8,146	3,537
Trade receivables	8,251	240
Sundry debtors	2,255	3,098
Other financial assets	22,180	-
	<u>40,832</u>	<u>6,875</u>

As at balance sheet date the carrying amount is also considered to approximate fair value for each of the financial instruments. There are no impaired balances.

The credit quality of cash and cash equivalents can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

	2018 NZ\$'000	2017 NZ\$'000
<i>Cash and cash equivalents:</i>		
Standard & Poors - AA-	2,580	3,272
Standard & Poors - A+	4,571	-
Standard & Poors - BBB+	995	265
<b>Total cash and cash equivalents</b>	<b>8,146</b>	<b>3,537</b>

### Past due but not impaired

As at balance sheet date, trade receivables of \$1,411,000 were past due but not impaired. These relate to wholesale customers following the acquisition of Oboz, and where there is no history of default. The ageing analysis of these trade receivables are as follows:

	2018 NZ\$'000	2017 NZ\$'000
0 to 30 days	883	-
30 to 60 days	297	-
60 to 90 days	134	-
90 days and over	127	-
	<b>1,441</b>	<b>-</b>

## 3.2 Property, plant and equipment

### Accounting policies

#### Keeping it simple ...

The following section shows the physical assets used by the Group to operate the business, generating revenues and profits. These assets include store and office fit-out, as well as equipment used in sales and support activities.

Assets are recognised 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.

### 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.

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.

#### Depreciation

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

Leasehold improvements	5 – 50 %
Office, plant and equipment	8 – 50 %
Furniture and fittings	10 – 50 %
Computer equipment	10 – 60 %

#### Impairment of assets

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 of disposal and value in use.

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

Property, plant and equipment can be analysed as follows:

	Leasehold improvement \$'000	Office, plant & equipment \$'000	Furniture & fittings \$'000	Computer equipment \$'000	Total \$'000
<b>Year ended 31 July 2017</b>					
Opening net book value	40,113	1,775	17,496	2,225	61,609
Additions	7,139	47	3,700	533	11,419
Disposals	(962)	(12)	(486)	(6)	(1,466)
Depreciation charge	(6,350)	(278)	(3,347)	(655)	(10,630)
Exchange differences	63	1	29	1	94
Closing net book value	40,003	1,533	17,392	2,098	61,026
<b>As at 31 July 2017</b>					
Cost	73,794	5,418	34,385	8,580	122,177
Accumulated depreciation	(33,791)	(3,885)	(16,993)	(6,482)	(61,151)
Closing net book value	40,003	1,533	17,392	2,098	61,026
<b>Year ended 31 July 2018</b>					
Opening net book value	40,003	1,533	17,392	2,098	61,026
Additions	7,897	149	5,772	482	14,300
Acquisition of businesses (Note 5.1)	132	441	-	90	663
Disposals	(1,370)	(10)	(655)	(3)	(2,038)
Depreciation charge	(7,006)	(266)	(3,745)	(559)	(11,576)
Exchange differences	736	42	337	24	1,139
Closing net book value	40,392	1,889	19,101	2,132	63,514
<b>As at 31 July 2018</b>					
Cost	78,824	6,263	39,640	9,243	133,970
Accumulated depreciation	(38,432)	(4,374)	(20,539)	(7,111)	(70,456)
Closing net book value	40,392	1,889	19,101	2,132	63,514

### Depreciation

	2018 NZ\$'000	2017 NZ\$'000
Leasehold improvement	7,006	6,350
Office, plant and equipment	266	278
Furniture and fittings	3,745	3,347
Computer equipment	559	655
Total depreciation	11,576	10,630

Depreciation expenditure is excluded from administration and general expenses in the statement of comprehensive income.

### Sale of property, plant and equipment

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

	2018 NZ\$'000	2017 NZ\$'000
Loss/(gain) on sale of property, plant and equipment	2,116	1,465

### Capital commitments

Capital commitments contracted for at balance sheet date include property, plant and equipment of \$2,461,029 (2017: \$2,093,450).

## 3.3 Intangible assets

### ■ *Keeping it simple ...*

The following section shows the non-physical assets used by the Group to operate the business, generating revenues and profits. These assets include brands, customer relationship, software development and goodwill.

This section explains the accounting policies applied and the specific judgements and estimates made by the Directors in arriving at the net book value of these assets.

### **Accounting policies**

#### ***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 or more frequently if events or changes in circumstances indicate that it might be impaired. It is 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.

#### ***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 or Oboz 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.

#### ***Customer Relationship***

Acquired customer relationships are carried at original cost based on independent valuation obtained at the date of acquisition less accumulated amortisation. They are amortised on a straight line basis over a useful life of 18 years. The estimated useful life and amortisation period is reviewed at the end of each annual reporting period.

#### ***Software costs***

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

Costs associated with developing or maintaining computer software programs are recognised as an expense when 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.

Software is amortised using straight line and diminishing value methods at rates of 20-67%.

#### ***Impairment***

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 of disposal and value in use.

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

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

### Intangible assets

	Goodwill NZ\$'000	Brand NZ\$'000	Customer Relationship NZ\$'000	Software NZ\$'000	Total NZ\$'000
<b>Year ended 31 July 2017</b>					
Opening net book value	121,474	148,457	-	10,152	280,083
Additions	-	-	-	1,857	1,857
Amortisation	-	-	-	(3,196)	(3,196)
Exchange differences	62	207	-	1	270
Closing net book value	121,536	148,664	-	8,814	279,014
<b>As at 31 July 2017</b>					
Cost	122,807	148,664	-	26,573	298,044
Accumulated amortisation/impairment	(1,271)	-	-	(17,759)	(19,030)
Closing net book value	121,536	148,664	-	8,814	279,014
<b>Year ended 31 July 2018</b>					
Opening net book value	121,536	148,664	-	8,814	279,014
Additions	-	-	-	2,394	2,394
Acquisition of businesses (Note 5.1)	54,849	34,541	13,125	92	102,607
Disposals	-	-	-	(78)	(78)
Amortisation	-	-	(253)	(3,322)	(3,575)
Exchange differences	4,352	4,723	859	23	9,957
Closing net book value	180,737	187,928	13,731	7,923	390,319
<b>As at 31 July 2018</b>					
Cost	182,008	187,928	13,984	29,109	413,029
Accumulated amortisation/impairment	(1,271)	-	(253)	(21,186)	(22,710)
Closing net book value	180,737	187,928	13,731	7,923	390,319

### Impairment tests for Kathmandu goodwill and brand

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

Group	Goodwill		Brand	
	2018 NZ\$'000	2017 NZ\$'000	2018 NZ\$'000	2017 NZ\$'000
New Zealand	45,484	45,484	51,000	51,000
Australia	76,785	76,052	100,108	97,664
	122,269	121,536	151,108	148,664

For the purposes of Kathmandu goodwill and brand impairment testing, the Group operates as two groups of cash generating units, New Zealand and Australia. The recoverable amount of the cash generating units has been determined based on value in use.

The discounted cash flow valuations were calculated using projected five-year future cash flows based on Board approved business plans. Business plans are modelled assuming like for like sales growth based on historical performance taking into account changing market conditions and the continuation of the store rollout programme. The key assumptions used for the value in use calculation are as follows:

	2018	2017
Terminal growth rate	1.0%	1.0%
New Zealand CGU pre-tax discount rate	12.4%	12.5%
Australia CGU pre-tax discount rate	12.2%	12.1%

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

The terminal growth rate assumption is based on a conservative estimate considering the current inflationary environment. Pre-tax discount rates are calculated based on a market participants expected capital structure and cost of debt to derive a weighted average cost of capital.

The calculations confirmed that there was no impairment of Kathmandu goodwill and brand during the year (2017: nil). The Board believes that any reasonably possible change in the key assumptions used in the calculations would not cause the carrying amount to exceed its recoverable amount.

The expected continued promotion and marketing of the Kathmandu brand support the assumption that the brand has an indefinite life.

### **Oboz goodwill and brand**

The purchase price allocation of goodwill of \$58,468,000 and brand of \$36,820,000 relating to the acquisition of Oboz is provisional at balance sheet date. There have been no indicators of impairment identified following acquisition therefore no impairment test has been performed. Refer to 5.1 for disclosures in relation to the purchase price allocation.

The expected continued promotion and marketing of the Oboz brand support the assumption that the brand has an indefinite life.

### ***Capital commitments***

Capital commitments contracted for at balance sheet date include intangible assets of \$748,139 (2017: \$850,000).



## Section 4: Capital Structure and Financing Costs

### **In this section ...**

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

Capital structure is how a company finances its overall operations and growth by using different sources of funds. The Directors determine and monitor the appropriate capital structure of Kathmandu, specifically how much is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's activities both now and in the future.

The Directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results and do so in the context of its ability to continue as a going concern, to execute strategy and to deliver its business plan.

### 4.1 Interest bearing liabilities

#### Accounting policies

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 statement of comprehensive income 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.

The table below separates borrowings into current and non-current liabilities:

	2018 NZ\$'000	2017 NZ\$'000
Current portion	-	-
Non-current portion	39,500	10,431
Total term loans	39,500	10,431

The Group has a multi-option facility agreement with Commonwealth Bank of Australia and ASB Bank Limited, with A\$60 million repayable in full on 1 August 2019, and a multi-option facility agreement with Bank of New Zealand with \$40 million and \$30 million repayable in full on 21 March 2020 and 21 March 2021, respectively.

Interest is payable based on the BKBM rate (NZD borrowings), the BBSY rate (AUD borrowings), or the applicable short term rate for interest periods less than 30 days, plus a margin of up to 1.30%. There are no assets pledged as security in relation to the unsecured debt in the 2018 financial year (2017: nil).

The covenants entered into by the Group require specified calculations of Group earnings before interest, tax, depreciation and amortisation (EBITDA) plus lease rental costs to exceed total fixed charges (net interest expense and lease rental costs) at the end of each half during the financial year. Similarly EBITDA must be no less than a specified proportion of total net debt at the end of each six month interim period. The calculations of these covenants are specified in the bank facility agreements of 19 December 2011 and have been complied with at 31 July 2018.

The current interest rates, prior to hedging, on the term loans ranged between 2.60% - 3.17% (2017: 2.24% - 2.52%).

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

	2018 NZ\$'000	2017 NZ\$'000
The principal of interest bearing liabilities is:		
Payable within 1 year	-	-
Payable 1 to 2 years	39,500	10,431
Payable 2 to 3 years	-	-
Payable 3 to 4 years	-	-
	39,500	10,431

### 4.1.1 Finance costs

	2018 NZ\$'000	2017 NZ\$'000
Interest income	(47)	(28)
Interest expense	1,389	1,887
Other finance costs	652	360
Net exchange loss/(gain) on foreign currency borrowings	(935)	(189)
	1,059	2,030

Other finance costs relates to facility fees on banking arrangements.

### 4.1.2 Cash flow and fair value interest rate risk

Interest rate risk is the risk that fluctuations in interest rates impact the Group's financial performance.

Risk	Exposure arising from	Monitoring	Management
Interest rate risk	Interest bearing liabilities at floating rates	Cash flow forecasting Sensitivity analysis	Interest rate swaps

Refer to section 4.2 for notional principal amounts and valuations of interest rate swaps outstanding at balance sheet date. A sensitivity analysis of interest rate risk on the Group's financial assets and liabilities is provided in the table below.

At the reporting date the interest rate profile of the Group's banking facilities was (carrying amount):

	2018 NZ\$'000	2017 NZ\$'000
Total secured loans	39,500	10,431
less Principal covered by interest rate swaps	(37,587)	(37,724)
Net Principal subject to floating interest rates <sup>1</sup>	1,913	(27,293)

- Debt levels fluctuate throughout the year and as at 31 July, are at a cyclical low. Forecast debt levels are expected to remain in excess of the interest rate swaps for a significant majority of the year.

Interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. The cash flow hedge (gain)/loss on interest rate swaps at balance sheet date was \$117,340 (2017: \$330,041).

### Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk. A sensitivity of 1% (2017: 1%) has been selected for interest rate risk. The 1% is based on reasonably possible changes over a financial year, using the observed range of historical data for the preceding five year period.

Amounts are shown net of income tax. All variables other than applicable interest rates are held constant. The impact on equity is presented exclusive of the impact on retained earnings.

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

31 July 2018	-1%		+1%		
	Carrying amount \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Derivative financial instruments (asset) / liability	(4,858)	(376)	323	376	(312)
<b>Financial assets</b>					
Cash	8,146	(59)	-	59	-
<b>Financial liabilities</b>					
Borrowings	39,500	395	-	(395)	-
<b>Total increase / (decrease)</b>		<b>(40)</b>	<b>323</b>	<b>40</b>	<b>(312)</b>

31 July 2017	-1%		+1%		
	Carrying amount \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Derivative financial instruments (asset) / liability	7,299	(377)	497	377	(479)
<b>Financial assets</b>					
Cash	3,537	(25)	-	25	-
<b>Financial liabilities</b>					
Borrowings	10,431	104	-	(104)	-
<b>Total increase / (decrease)</b>		<b>(298)</b>	<b>497</b>	<b>298</b>	<b>(479)</b>

### 4.1.3 Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Risk	Exposure arising from	Monitoring	Management
Liquidity risk	Interest bearing and other liabilities	Forecast and actual cash flows	Active working capital management and flexibility in funding arrangements

The Group has borrowing facilities of NZD \$140,729,053 / AUD \$129,330,000 (2017: NZD \$116,772,823 / AUD \$110,000,000 AUD) and operates well within this facility. This includes short term bank overdraft requirements, and at balance sheet date no bank accounts were in overdraft.

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

### Keeping it simple ...

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 date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, so will not always reconcile with the amounts disclosed on the balance sheet.

	<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>Over 5 years NZ\$'000</b>
<i>Group 2018</i>				
Trade and other payables	72,770	-	-	-
Other financial liabilities	21,994	-	-	-
Borrowings	1,116	40,619	-	-
	<u>95,880</u>	<u>40,619</u>	<u>-</u>	<u>-</u>
<i>Group 2017</i>				
Trade and other payables	56,735	-	-	-
Other financial liabilities	-	-	-	-
Borrowings	242	10,653	-	-
	<u>56,977</u>	<u>10,653</u>	<u>-</u>	<u>-</u>

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

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. They are expected to occur and affect the profit or loss at various dates between balance sheet dates 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>
<i>At 31 July 2018</i>			
Forward foreign exchange contracts			
- Inflow	147,505	-	-
- Outflow	(142,530)	-	-
Net Inflow / (Outflow)	<u>4,975</u>	<u>-</u>	<u>-</u>
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	<u>(81)</u>	<u>(24)</u>	<u>-</u>
<i>At 31 July 2017</i>			
Forward foreign exchange contracts			
- Inflow	123,172	-	-
- Outflow	(130,141)	-	-
Net Inflow / (Outflow)	<u>(6,969)</u>	<u>-</u>	<u>-</u>
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	<u>(248)</u>	<u>(99)</u>	<u>(24)</u>

## 4.2 Derivative financial instruments

### ■ *Keeping it simple ...*

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables such as exchange rates or interest rates and is entered into for a fixed period. A hedge is where a derivative is used to manage an underlying exposure.

The Group is exposed to changes in interest rates on its borrowings and to changes in foreign exchange rates on its foreign currency (largely USD) purchases. The Group uses derivatives to hedge these underlying exposures.

Derivative financial instruments are initially included in the balance sheet at their fair value, either as assets or liabilities, and are subsequently re-measured at fair value at each reporting date.

An interest rate swap is an instrument to exchange a fixed rate of interest for a floating rate, or vice versa, or one type of floating rate for another.

### **Accounting policies**

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

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

### **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 statement of comprehensive income. Amounts accumulated in equity are recycled in the statement of comprehensive income in the periods when the hedged item will affect profit or loss. 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 statement of comprehensive income. 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 statement of comprehensive income.

### **Foreign currency translation**

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 statement of comprehensive income, except when deferred in other comprehensive income. Translation differences on monetary financial assets and liabilities are reported as part of the fair value gain or loss.

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

### Derivative financial instruments

	2018 NZ\$'000	2017 NZ\$'000
<b>Foreign exchange contracts</b>		
Current asset	5,076	-
Current liability	(101)	(6,969)
Net foreign change contracts – cash flow hedge (asset / (liability))	4,975	(6,969)
<b>Interest rate swaps</b>		
Non-current asset	-	-
Current liability	(55)	(65)
Non-current liability	(62)	(265)
Net interest rate swaps – cash flow hedge (asset / (liability))	(117)	(330)
<b>Total derivative financial instruments</b>	<b>4,858</b>	<b>(7,299)</b>

The above table shows the Group's financial derivative holdings at year end.

#### *Interest rate swaps - cash flow hedge*

Interest rate swaps are to exchange a floating rate of interest for a fixed rate of interest. The objective of the transaction is to hedge the core floating rate borrowings of the business to minimise the impact of interest rate volatility within acceptable levels of risk thereby limiting the volatility on the Group's financial results. The notional amount of interest rate swaps at balance sheet date was \$37,586,507 (2017: \$37,723,992). The fixed interest rates range between 2.12% and 3.05% (2017: 2.13% and 3.52%). Refer section 4.1.3 for timing of contractual cash flows relating to interest rate swaps.

#### *Foreign exchange contracts - cash flow hedge*

The objective of these contracts is to hedge highly probable anticipated foreign currency purchases against currency fluctuations. These contracts are timed to mature when import purchases are scheduled for payment. The notional amount of foreign exchange contracts amount to US\$102,300,000, NZ\$144,562,936 (2017: US\$92,450,000, NZ\$130,140,594).

No material hedge ineffectiveness for interest rate swaps or foreign exchange contracts exists as at balance sheet date (2017: nil).

Refer to section 4.2.1 for a sensitivity analysis of foreign exchange risk associated with derivative financial instruments.

#### *4.2.1 Foreign exchange risk*

Foreign exchange risk is the risk that fluctuations in exchange rates will impact the Group's financial performance. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the AUD, USD and the GBP.

Risk	Exposure arising from	Monitoring	Management
Foreign exchange risk	Foreign currency purchases – over 90% of purchases are in USD	Forecast purchases Reviewing exchange rate movements	USD foreign exchange derivatives

The Group is exposed to currency risk on any cash remitted between Australia, the United Kingdom, USA and New Zealand. The Group does not hedge for such remittances. Interest on borrowings is denominated in either New Zealand dollars or Australian dollars, and is paid for out of surplus operating cashflows generated in New Zealand or Australia.

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

### Summarised sensitivity analysis

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

A sensitivity of -10% / +10% (2017: -10% / +10%) for foreign exchange risk has been selected. While it is unlikely that an equal movement of the New Zealand dollar would be observed against all currencies, an overall sensitivity of -10% / +10% (2017: -10% / +10%) is reasonable given the exchange rate volatility observed on a historic basis for the preceding five year period and market expectation for potential future movements.

Amounts are shown net of income tax. All variables other than applicable exchange rates are held constant. The impact on equity is presented exclusive of the impact on retained earnings.

	Carrying amount \$'000	-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>31 July 2018</b>					
Derivative financial instruments (asset) / liability	(4,858)	-	(16,456)	-	13,464
<b>Financial assets</b>					
Cash	8,146	628	-	(514)	-
Trade receivables and sundry debtors	10,506	(802)	-	656	-
Other financial assets	22,180	(1,774)	-	1,452	-
		(1,948)	-	1,594	-
<b>Financial liabilities</b>					
Trade payables	72,770	(4,810)	-	3,935	-
Other financial liabilities	21,994	(1,760)	-	1,440	-
Borrowings	39,500	-	-	-	-
		(6,570)	-	5,375	-
<b>Total increase / (decrease)</b>		<b>(8,518)</b>	<b>(16,456)</b>	<b>6,969</b>	<b>13,464</b>

	Carrying amount \$'000	-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>31 July 2017</b>					
Derivative financial instruments (asset) / liability	7,299	-	(13,549)	-	11,086
<b>Financial assets</b>					
Cash	3,537	203	-	(166)	-
Trade receivables and sundry debtors	3,338	(129)	-	105	-
Other financial assets	-	-	-	-	-
		74	-	(61)	-
<b>Financial liabilities</b>					
Trade payables	56,735	(3,648)	-	2,985	-
Other financial liabilities	-	-	-	-	-
Borrowings	10,431	-	(594)	-	486
		(3,648)	(594)	2,985	486
<b>Total increase / (decrease)</b>		<b>(3,574)</b>	<b>(14,143)</b>	<b>2,924</b>	<b>11,572</b>

### 4.3 Equity

**Keeping it simple ...**

This section explains material movements recorded in shareholders' equity that are not explained elsewhere in the financial statements. The movements in equity and the balance at 31 July 2018 are presented in the statement of changes in equity.

#### Accounting policies

##### Share capital

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

##### Dividends

Dividends are recognised through equity following the approval by the Company's directors.

#### 4.3.1 Contributed equity - ordinary shares

	2018 NZ\$'000	2017 NZ\$'000
Ordinary shares fully paid (\$)	249,882	200,209
Balance at beginning of year	200,209	200,191
Issue of shares under Executive and Senior Management Long Term Incentive Plan	971	18
Shares issued under share placement and share purchase plan	48,702	-
Balance at end of year	249,882	200,209

#### Number of issued shares

	2018 '000	2017 '000
Ordinary shares issued at beginning of the year	201,497	201,484
Shares issued under Executive and Senior Management Long Term Incentive Plan	670	13
Shares issued under share placement and share purchase plan	23,148	-
Ordinary shares issued at end of the year	225,315	201,497

As at 31 July 2018 there were 225,314,819 ordinary issued shares in Kathmandu Holdings Limited and these are classified as equity.

669,669 shares (2017: 12,537) were issued under the "Executive and Senior Management Long Term Incentive Plan 24 November 2010" during the year.

During the year 18,518,519 shares were issued in relation to the share placement and 4,629,511 were issued in relation to the share purchase plan. Total capital raised of \$48,702,000 is net of directly attributable share issue costs of \$1,298,000.

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

Refer to section 6.4 for Employee share based remuneration plans.

#### 4.3.2 Reserves and retained earnings

##### Cash flow hedging reserve

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in other comprehensive income, as described in the accounting policy in section 4.2. The amounts are recognised in profit or loss when the associated hedged transaction affects profit or loss.



## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

### Foreign currency translation reserve

The FCTR is used to record foreign currency translation differences arising on the translation of the Group entities results and financial position. The amounts are accumulated in other comprehensive income and recognised in profit or loss when the foreign operation is partially disposed of or sold.

### Share based payments reserve

The share based payments reserve is used to recognise the fair value of share options and performance rights granted but not exercised or lapsed. Amounts are transferred to share capital when vested options are exercised by the employee or performance rights are vested.

#### Reserves

		2018 NZ\$'000	2017 NZ\$'000
<b>(i) Cash flow hedging reserve</b>			
Opening balance		(5,322)	(5,531)
Revaluation - gross		13,865	8,142
Deferred taxation on revaluation	2.3	(3,360)	(628)
Transfer to hedged asset		(1,757)	(7,171)
Transfer to net profit - gross		72	(134)
Closing balance		<u>3,498</u>	<u>(5,322)</u>
<b>(ii) Foreign currency translation reserve</b>			
Opening balance		(19,493)	(19,702)
Currency translation differences – Gross		10,518	209
Currency translation differences – Taxation	2.3	-	-
Closing balance		<u>(8,975)</u>	<u>(19,493)</u>
<b>(iii) Share based payments reserve</b>			
Opening balance		1,813	692
Current year amortisation		1,489	1,139
Deferred taxation on share options	2.3	429	-
Transfer to Share Capital on vesting of shares to Employees		(971)	(18)
Closing balance		<u>2,760</u>	<u>1,813</u>
Total Reserves		<u>(2,717)</u>	<u>(23,002)</u>

### 4.3.3 Dividends

	2018 NZ\$'000	2017 NZ\$'000
Prior year final dividend paid	18,195	16,119
Current year interim dividend paid	9,013	8,060
Dividends paid (\$0.13 per share (2017: \$0.12))	<u>27,208</u>	<u>24,179</u>

### 4.3.4 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.

## Section 5: Group Structure

### ■ Keeping it simple ...

This section provides information about the entities that make up the Kathmandu Group and how they affect the financial performance and position of the Group.

### 5.1 Acquisition of Oboz Footwear LLC

On 4 April 2018 Kathmandu Holdings Limited through its wholly-owned subsidiary Kathmandu US Holdings LLC acquired 100% of the equity interests in Oboz Footwear LLC based out of Bozeman, Montana. The total purchase price was USD \$60,000,000 plus a proportionate contingent earn out of up to USD \$15,000,000.

Oboz designs and sells outdoor footwear through a wholesale model with distribution to leading outdoor retailers primarily in North America. It was acquired as part of Kathmandu's continued international growth strategy due to its wholesale business model, complementary product offering and shared common values.

At the time the financial statements were authorised for issue, the Group had not yet finalised the purchase price allocation for the acquisition of Oboz. Fair values of the assets and liabilities disclosed below, including goodwill, are determined provisionally as management is in process of reviewing the details of independent valuations. In segment information (Note 2.1), management temporarily allocates related assets and liabilities of the acquired business in the "North America" segment. The Group expects to finalise the purchase price allocation in the next few months and will record any allocation adjustments in next financial period.

#### Provisional Purchase Price Allocation

	NZD\$'000
<b>Purchase price</b>	103,164
Less indebtedness settled on acquisition	(8,510)
Plus settlement adjustments	2,176
<b>Total net consideration</b>	<u>96,830</u>
<i>Recognised amounts of identifiable assets acquired and liabilities assumed;</i>	
<b>Current assets</b>	
Cash and cash equivalents	600
Trade and other receivables	11,682
Inventories	6,786
<b>Non-current assets</b>	
Property, plant and equipment	663
Intangible assets	92
Customer relationships	13,125
Brand	34,541
<b>Current liabilities</b>	
Trade and other payables	(5,239)
<b>Non-current liabilities</b>	
Interest bearing liabilities	(6,915)
Deferred tax	(13,354)
<b>Net assets acquired</b>	<u>41,981</u>
Goodwill on acquisition	54,849
<b>Total net consideration</b>	<u>96,830</u>
Less cash and cash equivalents acquired	(600)
Less contingent consideration	(21,994)
Plus indebtedness settled on acquisition	8,510
<b>Net cash outflow on acquisition</b>	<u>82,746</u>

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

Under the sale and purchase agreement, the Group is required to pay a proportionate contingent earn out of up to USD \$15,000,000 (NZD \$21,994,000) based on an EBITDA target for the year ending 31 December 2018. \$21,994,000 represents the estimated fair value of this obligation at the acquisition date and this remains unchanged at balance sheet date.

Acquisition related costs of \$1,990,000 have been excluded from the consideration transferred and are included in administration and general expenses in the statement of comprehensive income and in operating cash flows in the statement of cash flows in the current year.

### Goodwill arising on acquisition

Goodwill arose on the acquisition of Oboz because of the established workforce and control premiums paid. This is not recognised separately from goodwill as the expected future economic benefits arising cannot be reliably measured and they do not meet the definition of identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

### Impact of the acquisition on the results of the Group

Oboz contributed \$1,922,000 to the group profit for the year. Group revenue for the year includes \$16,548,000 in respect of Oboz. Had the Oboz acquisition been effective from 1 August 2017, the unaudited revenue of the Group would have been \$529,179,000 and the unaudited profit for the year would have been \$54,637,000.

## 5.2 Subsidiary Companies

Subsidiaries are all entities over which the Group has control. Control is achieved when the Group

- has power over the entity;
- is exposed to, or has rights to, variable returns from its involvement with the entity; and
- has the ability to use its power to affect returns.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Subsidiary Companies:	Principal Activity	Country of Incorporation	Holding		Balance Sheet Date
			2018	2017	
Milford Group Holdings Limited	Holding company	New Zealand	100%	100%	31 July
Kathmandu Limited	Outdoor retailer	New Zealand	100%	100%	31 July
Kathmandu Pty Limited	Outdoor retailer	Australia	100%	100%	31 July
Kathmandu (U.K.) Limited	Outdoor retailer	United Kingdom	100%	100%	31 July
Kathmandu US Holdings LLC	Holding company	USA	100%	N/A	31 July
Oboz Footwear LLC	Footwear wholesaler	USA	100%	N/A	31 December

Kathmandu US Holdings LLC was incorporated on 20 March 2018.

## Section 6: Other Notes

### 6.1 Related parties

During the year, operating lease costs of \$89,263 (2017: \$223,258) were paid to Chalmers Properties Limited, a subsidiary of Port Otago Limited. John Harvey retired as a Director of both of these companies on 8 December 2017.

All transactions with related parties were in the normal course of business and provided on commercial terms.

#### Key Management Personnel

	2018 NZ\$'000	2017 NZ\$'000
Salaries	3,031	2,778
Other short-term employee benefits	1,195	987
Post-employment benefits	111	104
Employee performance rights	929	675
	5,266	4,544

Key management personnel include the following employees:

Executive Directors:

- Chief Executive Officer

Senior Managers:

- Chief Operating and Financial Officer

Other Key Management Personnel:

- General Manager, Product
- General Manager, Marketing, Online and International
- General Manager, Supply Chain
- General Manager, Human Resources
- Chief Information Officer
- General Manager, Retail Stores and Operations
- General Manager Merchandising

Remuneration Detail – refer to section 6.3.

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

#### Foreign exchange contracts and interest rate swaps

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

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

These derivatives have all been determined to be within level 2 (for the purposes of NZ IFRS 13) of the fair value hierarchy as all significant inputs required to ascertain the fair value of these derivatives are observable.

#### 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 are approximately nil. All guarantees are payable on demand.

# KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

## 6.3 Remuneration Detail

2018	Short-Term Benefits			Post-employment benefits	Share based payments			
	Cash Salary and fees	Cash bonus	Non-Monetary benefits	Super-annuation	Performance Rights <sup>1</sup>	Equity related	Total	Performance related
Name	\$	\$	\$	\$	\$	%	\$	%
<b>Non-Executive Directors</b>								
David Kirk	241,302	-	-	-	-	0.0%	241,302	0.0%
John Harvey	126,236	-	-	-	-	0.0%	126,236	0.0%
Sandra McPhee	126,236	-	-	-	-	0.0%	126,236	0.0%
Philip Bowman	105,197	-	-	-	-	0.0%	105,197	0.0%
Brent Scrimshaw	105,197	-	-	-	-	0.0%	105,197	0.0%
John Holland	21,039	-	-	-	-	0.0%	21,039	0.0%
Christine Cross	21,039	-	-	-	-	0.0%	21,039	0.0%
	<b>746,246</b>	-	-	-	-	<b>0.0%</b>	<b>746,246</b>	<b>0.0%</b>
<b>Executive Directors</b>								
Xavier Simonet	858,480	528,091	-	21,744	398,637	22.1%	1,806,952	51.3%
	<b>858,480</b>	<b>528,091</b>	-	<b>21,744</b>	<b>398,637</b>	<b>22.1%</b>	<b>1,806,952</b>	<b>51.3%</b>
<b>Senior Managers and Other Key Management Personnel</b>								
Reuben Casey	394,810	136,500	2,791	11,841	166,055	23.3%	711,997	42.5%
Other Management	1,777,855	519,977	8,072	77,685	364,065	13.3%	2,747,654	32.2%
<b>Total</b>	<b>3,777,391</b>	<b>1,184,568</b>	<b>10,863</b>	<b>111,270</b>	<b>928,757</b>	<b>15.5%</b>	<b>6,012,849</b>	<b>35.2%</b>

1. This represents the accounting expense of amortising the value of performance rights during the year (refer to note 6.4). 173,271 performance rights were vested and issued to key management personnel during FY2018 of which 59,167 related to Reuben Casey and nil related to Xavier Simonet.

2017	Short-Term Benefits			Post-employment benefits	Share based payments			
	Cash Salary and fees	Cash bonus	Non-Monetary benefits	Super-annuation	Performance Rights <sup>1</sup>	Equity related	Total	Performance related
Name	\$	\$	\$	\$	\$	%	\$	%
<b>Non-Executive Directors</b>								
David Kirk	236,428	-	-	-	-	0.0%	236,428	0.0%
John Harvey	123,687	-	-	-	-	0.0%	123,687	0.0%
John Holland	123,687	-	-	-	-	0.0%	123,687	0.0%
Sandra McPhee	123,687	-	-	-	-	0.0%	123,687	0.0%
Christine Cross	123,687	-	-	-	-	0.0%	123,687	0.0%
	<b>731,176</b>	-	-	-	-	<b>0.0%</b>	<b>731,176</b>	<b>0.0%</b>
<b>Executive Directors</b>								
Xavier Simonet	821,965	446,891	-	21,170	203,866	13.6%	1,493,892	43.6%
	<b>821,965</b>	<b>446,891</b>	-	<b>21,170</b>	<b>203,866</b>	<b>13.6%</b>	<b>1,493,892</b>	<b>43.6%</b>
<b>Senior Managers and Other Key Management Personnel</b>								
Reuben Casey	366,651	116,033	3,123	11,000	121,992	19.7%	618,799	38.5%
Other Management	1,589,914	411,520	9,031	71,879	349,281	14.4%	2,431,625	31.3%
<b>Total</b>	<b>3,509,706</b>	<b>974,444</b>	<b>12,154</b>	<b>104,049</b>	<b>675,139</b>	<b>12.8%</b>	<b>5,275,492</b>	<b>31.3%</b>

1. No performance rights were vested and issued to key management personnel during 2017, this represents the accounting expense of amortising the value of performance rights during the year (refer to note 6.4).

## 6.4 Employee Share Based Remuneration

### Accounting policy

#### *Equity settled long term incentive plan*

The Executive and Senior Management Long Term Incentive plan grants Group employees performance rights subject to performance hurdles being met. The fair value of rights granted is recognised as an employee expense in the Statement of comprehensive income with a corresponding increase in the employee share based payments reserve. The fair value is measured at grant date and amortised over the vesting periods. The fair value of the rights granted is measured using the Kathmandu Holdings Limited share price as at the grant date less the present value of the dividends forecast to be paid prior to each vesting date. When performance rights vest, the amount in the share based payments reserve relating to those rights are transferred to share capital. When any vested performance rights lapse upon employee termination, the amount in the share based payments reserve relating to those rights is transferred to retained earnings.

#### **Executive and Senior Management Long Term Incentive Plan**

On 20 November 2013, shareholders approved at the Annual General Meeting the continuation of an Employee Long Term Incentive Plan (LTI) (previously established 24 November 2010) to grant performance rights to Executive Directors, Senior Managers, Other Key Management Personnel and Wider Leadership Management.

#### *Executive Directors and Senior Managers*

Performance rights granted to Executive Directors and Senior Managers are summarised below:

Grant Date	Balance at start of year number	Granted during the year number	Vested during the year number	Lapsed during the year number	Balance at the end of year number
20 Dec 2017	-	374,437	-	-	374,437
19 Dec 2016	375,810	-	-	-	375,810
16 Dec 2015	407,463	-	-	-	407,463
	783,273	374,437	-	-	1,157,710

The performance rights granted on 20 December 2017 are Long Term Incentive components only.

Long Term Incentive performance rights vest in equal tranches. In each tranche the rights are subject to a combination of a relative Total Shareholder Return (TSR) hurdle and/or an EPS growth hurdle. The relative weighting and number of tranches for each grant date are shown in the table below:

Grant Date	Tranches	EPS Weighting	TSR Weighting
20 Dec 2017	1	50%	50%
19 Dec 2016	1	50%	50%
16 Dec 2015	1	50%	50%

The proportion of rights subject to the relative TSR hurdle is dependent on Kathmandu Holdings Limited's TSR performance relative to a defined comparable group of companies in New Zealand and Australia listed on either the ASX or NZX. The percentage of TSR related rights vest according to the following performance criteria:

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

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

The TSR performance is calculated for the following performance periods:

Tranche	2018	2017
Tranche 1	36 months to 1 December 2020	36 months to 1 December 2019

The fair value of the TSR rights have been valued under a Monte Carlo simulation approach predicting Kathmandu Holdings Limited's TSR relative to the comparable group of companies at the respective vesting dates for each tranche. The fair value of TSR rights, along with the assumptions used to simulate the future share prices using a random-walk process are shown below:

	2018	2017
Fair value of TSR rights	\$208,920	\$167,054
Current price at grant date	\$2.42	\$1.96
Risk free interest rate	2.06%	2.40%
Expected life (years)	3	3
Expected share volatility	43.0%	44.3%

The estimated fair value for each tranche of rights issued is amortised over the vesting period from the grant date.

The proportion of rights subject to the EPS growth hurdle is dependent on the compound average annual growth in Kathmandu Holdings Limited's EPS relative to the year ending 31 July 2017. The applicable performance periods are:

Tranche	2018 Performance Period	2017 Performance Period
Tranche 1	FY20 EPS relative to FY17 EPS	FY19 EPS relative to FY16 EPS

The percentage of the 2018 EPS growth related rights scales according to the compound average annual EPS growth achieved as follows:

EPS Growth	2018 % Rights Vesting	EPS Growth	2017 % Rights Vesting
< 7%	0%	< 10%	0%
>=7%, < 8%	50%	>=10%, < 11%	50%
>=8%, < 9%	60%	>=11%, < 12%	60%
>=9%, < 10%	70%	>=12%, < 13%	70%
>=10%, < 11%	80%	>=13%, < 14%	80%
>=11%, < 12%	90%	>=14%, < 15%	90%
>=12%	100%	>=15%	100%

The fair value of the EPS rights have been assessed as the Kathmandu Holdings Limited share price as at the grant date less the present value of the dividends forecast to be paid prior to each vesting date. The estimated fair value for each tranche of options issued is amortised over the vesting period from the grant date.

Vesting of Long Term Incentive performance rights also require remaining in employment with the Company during the performance period.

### Other Key Management Personnel and Wider Leadership Management

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

Grant Date	Balance at start of year number	Granted during the year number	Vested during the year number	Lapsed during the year number	Balance at the end of year number
11 Dec 2017	-	591,932	-	(22,991)	568,941
07 Dec 2016	510,322	-	-	(44,073)	466,249 <sup>1</sup>
18 Dec 2015	669,669	-	(669,669)	-	-

<sup>1</sup> Remaining performance rights on vesting date 31 July 2018, which were subsequently issued on 10 August 2018.

## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

Short Term Incentive performance rights vest:

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

The performance period and vesting dates are summarised below:

	2018	2017
Grant Date	11 Dec 2017	7 Dec 2016
Performance period (year ending)	31 Jul 2018	31 Jul 2017
Vesting Date – Other Key Management Personnel and Wider Leadership Management	31 Jul 2019	31 Jul 2018

The fair value of the rights were assessed as the Kathmandu Holdings Limited share price as at the grant date less the present value of the dividends forecast to be paid prior to the vesting date. The fair value of each right has been calculated to be NZ\$2.14 per right (2017: NZ\$1.71).

The non-market performance hurdles set for the year ending 31 July 2018 were met and accordingly an expense has been recognised in the Statement of Comprehensive Income.

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

	2018 NZ\$'000	2017 NZ\$'000
Executive Director	399	204
Key Management Personnel and Wider Leadership Management	1,090	935
	<u>1,489</u>	<u>1,139</u>

### 6.5 Contingent liabilities

There are no contingent liabilities in 2018 (2017: nil).

### 6.6 Contingent assets

There are no contingent assets in 2018 (2017: nil).

### 6.7 Events occurring after the balance sheet date

There are no events after balance sheet date which materially affect the information within the financial statements.

### 6.8 Supplementary Information

#### Directors fees

	2018 NZ\$'000	2017 NZ\$'000
Directors' fees	746	731

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

- David Kirk (Chairman)
- Sandra McPhee
- John Harvey
- Philip Bowman
- Brent Scrimshaw
- John Holland
- Christine Cross



## KATHMANDU HOLDINGS LIMITED – ANNUAL REPORT 2018

### Audit fees

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:

	2018 NZ\$'000	2017 NZ\$'000
<b>Audit services - PricewaterhouseCoopers</b>		
Statutory audit	175	133
Half year review	33	32
Other assurance services*	18	19
Total remuneration for audit services	226	184

\* Other assurance services relate the preparation of revenue certificates, and banking compliance certificates and a treasury review in the previous year.

### 6.9 New Accounting Standards

#### New standards first applied in the year

There are no standards or amendments adopted by the Group since 1 August 2017 that have a significant impact on the Group.

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

New Accounting Standard	Effective Date Applicable to the Group	Summary of Changes	Group Impact
NZ IFRS 9 Financial Instruments	1 August 2018	Addresses the classification, measurement and de-recognition of financial assets and financial liabilities and new rules for hedge accounting.	<p>The Group has reviewed its financial assets and liabilities and noted no material impact from the adoption of NZ IFRS 9.</p> <p>The Group currently has financial assets classified as fair value through profit or loss, and loans and receivables. NZ IFRS 9 does not impact the measurement of the Group's financial assets classified as fair value through profit or loss. The financial assets currently classified as loans and receivables will fall into the amortised cost category under NZ IFRS 9.</p> <p>The financial assets classified in the amortised cost category will be subject to the new impairment model which requires the recognition of impairment provisions based on expected credit losses (ECL). Under NZ IAS 39 an incurred credit loss model was applied. Based on the Group's assessment of historical provision rates and forward-looking analysis, there is no material financial impact on the impairment provisions in the year of adoption.</p> <p>The Group currently has financial liabilities classified as fair value through profit or loss and amortised cost. NZ IFRS 9 does not impact the classification or measurement of the Group's financial liabilities.</p> <p>The new hedge accounting rules will align the accounting for hedging instruments more closely with the group's risk management practices. The Group has confirmed that its current hedge relationships would qualify as continuing hedges upon the adoption of NZ IFRS 9. Accordingly,</p>

			<p>there is no significant impact on the accounting treatment for the Group's hedging relationships. The nature and extent of the Group's disclosure note in relation to its hedging relationships will change in the consolidated financial statements for the period ending 31 July 2019.</p>
NZ IFRS 15 Revenue from Contracts with Customers	1 August 2018	<p>Establishes the reporting principles relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.</p>	<p>During the financial year, the Group assessed the potential impact of IFRS 15. Work focused on segregating the different revenue streams that exist within the business. The majority of revenue is made up of in store transactions with less than 14% earned through online and wholesale sales.</p> <p>The following matters are relevant to the Group under NZ IFRS 15:</p> <ul style="list-style-type: none"> <li>- A customers' right of return in determining revenue to be recognised and how it should be accounted for</li> <li>- For online sales and wholesale sales, whether arranging the delivery of goods is a separate performance obligation as it may impact the timing, measurement and classification of revenue recognised.</li> </ul> <p>There is no material impact from the adoption of NZ IFRS 15 in relation to the above matters.</p>
NZ IFRS 16 Leases	1 August 2019	<p>Introduces a single lessee accounting model requiring a lessee to recognise assets and liabilities for all leases with a term of more than 12 months where they are not considered low value. A right-of-use asset will be recognised representing the right to use the underlying leased asset and a lease liability representing the obligations to make lease payments. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability.</p>	<p>This standard will materially impact the Group's consolidated financial statements at transition and in future years, as the Group's operating leases (primarily in relation to store, distribution centre and office leases) are recognised on balance sheet.</p> <p>During the financial year, the implementation plan for the new leases standard has commenced in a number of areas including;</p> <ul style="list-style-type: none"> <li>- Identification of leases and contracts that could be determined to include a lease;</li> <li>- Collation of lease data required for the calculation of the impact assessment;</li> <li>- Identification of areas of complexity and judgement to the Group; and</li> <li>- Identification of necessary changes to systems and processes required to enable reporting and accounting in accordance with the new standard.</li> </ul> <p>Note 2.2 reflects that as at 31 July 2018 the Group had lease commitments for operating leases of \$223 million. A preliminary assessment indicates that lease arrangements will meet the definition of a lease under NZ IFRS 16, and hence the group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value short-term leases upon the application of NZ IFRS 16.</p> <p>A reliable estimate of the financial impact on the group is dependent on the finalisation of a number of areas, including;</p> <ul style="list-style-type: none"> <li>- Choice of transition method;</li> <li>- Selection of discount rates;</li> </ul>

			<ul style="list-style-type: none"> <li>- Estimates of lease-term for leases with options; and</li> <li>- Assessment of completeness of data.</li> </ul> <p>The financial impact is dependent on the composition of the lease portfolio at the time of transition. Therefore it is not yet practical to determine a reliable estimate of the financial impact on the group.</p>
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## ***Independent auditor's report***

To the shareholders of Kathmandu Holdings Limited

The consolidated financial statements comprise:

- the consolidated balance sheet as at 31 July 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### ***Our opinion***

In our opinion, the consolidated financial statements of Kathmandu Holdings Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 July 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of covenant compliance and agreed upon procedures for store turnover certificates. The provision of these other services has not impaired our independence as auditor of the Group.

## Our audit approach

### Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: \$3.65 million, which represents approximately 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during the audit above \$365,000.

We have determined that there are two key audit matters:

- Identification and valuation of intangible assets arising from the acquisition of Oboz Footwear LLC (Oboz)
- Inventory valuation and existence

### Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

### Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industries in which the Group operates.

The accounting function for the Company is maintained in New Zealand, the Oboz accounting function is located in the USA. The Group audit was conducted by a New Zealand based team.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Key audit matter	How our audit addressed the key audit matter
<p data-bbox="263 425 758 526"><i>Identification and valuation of intangible assets arising from the acquisition of Oboz Footwear LLC.</i></p> <p data-bbox="263 537 758 795">As disclosed in note 5.1 of the financial statements, the Group acquired 100% of the shares of Oboz Footwear LLC (Oboz), on 4 April 2018, for consideration of \$103.1 million of which \$22.0 million is contingent on an EBITDA target being met for the year ending 31 December 2018.</p> <p data-bbox="263 817 758 918">The purchase price included identifiable tangible and intangible assets acquired and liabilities assumed.</p> <p data-bbox="263 952 758 1075">Management engaged a third party (management expert) to assist in a process to identify and determine the fair value of these assets and liabilities.</p> <p data-bbox="263 1108 758 1299">In addition to Goodwill of \$54.8 million management have provisionally identified intangible assets relating to Brand and Customer Relationships held by Oboz valued at \$34.5 million and \$13.1 million respectively.</p> <p data-bbox="263 1332 758 1489">Our audit focused on this area because significant judgement and estimates are involved in identifying and determining the fair value of the intangible assets acquired.</p>	<p data-bbox="790 459 1476 526">In responding to the significant judgements involved in identifying and valuing the intangible assets acquired we:</p> <ul data-bbox="790 548 1476 1310" style="list-style-type: none"><li>• Reviewed the sale and purchase agreement and other documents related to the acquisition to obtain an understanding of the transaction and to confirm the consideration;</li><li>• Reviewed the year to date trading of Oboz against the EBITDA earn out target to confirm the recognition and valuation of the deferred consideration is appropriate;</li><li>• Met with Group and Oboz management to obtain an understanding of the business process undertaken to identify and value the assets acquired and liabilities assumed;</li><li>• Considered whether identification and recognition of intangible assets was consistent with the requirements of the accounting standards;</li><li>• We engaged our internal valuation specialist to assess the appropriateness of assets identified and the valuation methodology applied by managements expert; and</li><li>• Considered whether the relevant disclosures were appropriate in the consolidated financial statements.</li></ul> <p data-bbox="790 1321 1476 1388">From the procedures performed we have no matters to report.</p>
<p data-bbox="263 1512 758 1545"><i>Inventory valuation and existence</i></p> <p data-bbox="263 1556 758 1814">At 31 July 2018, the Group held inventories of \$111.9 million. Inventory valuation and existence was an audit focus area because of the number of stores/locations that inventory was held at, and the judgement applied in the valuation of inventory to incorporate inventory shrinkage.</p> <p data-bbox="263 1848 758 1982">As described in note 3.1.1 of the financial statements, inventories are carried at the lower of cost and net realisable value on a weighted average basis.</p>	<p data-bbox="790 1545 1476 1612">We performed a number of audit procedures over inventory existence and valuation. We</p> <ul data-bbox="790 1612 1476 1971" style="list-style-type: none"><li>• Observed the stocktake process at selected store locations near period end and undertook our own test counts;</li><li>• Attended the year end Oboz distribution centre count and performed independent test counts;</li><li>• Validated all stores had been counted twice in the year by selecting a sample of locations not visited by us and inspected results of stock counts held and confirmed variances were correctly accounted for and approved by head office management;</li></ul>



Key audit matter	How our audit addressed the key audit matter
<p>The Group has systems and processes including a barcode inventory management system to accurately record inventory movements.</p> <p>Management engage an independent third party to complete full stock takes at each store twice a year. This process is managed centrally by head office for consistency. Daily cycle counts are performed at the New Zealand and Australian distribution centres. A full inventory count was performed at the US Oboz distribution centre at year end.</p> <p>There are judgements applied in assessing the level of provision for inventory shrinkage. Management provide for shrinkage each month on a location by location basis. The level of provision is based on historical inventory counts and stocktake shrinkage trends.</p>	<ul style="list-style-type: none"> <li>Observed the daily stocktake process at the Christchurch and Melbourne distribution centres near period end and undertook our own test counts. We also validated that daily counts occurred by selecting a sample of days for each location and inspected the count records for those days;</li> <li>Assessed the inventory shrinkage provision by reviewing the level of inventory write downs during the period. We tested the shrinkage rate used to calculate the provision for each store since the last stocktake by comparing it to the actual shrinkage rate in prior periods;</li> <li>Assessed store inventory counts performed post year end to ensure the actual level of shrinkage was consistent with the year-end provisioning;</li> <li>Held discussions with management, including merchandising personnel, to understand and corroborate the assumptions applied in estimating inventory provisions;</li> <li>Evaluated key assumption made by management that current shrinkage levels were consistent with historical levels through an analysis of inventory items by category and age and the level of inventory write-downs in these categories during the period compared to prior periods; and</li> <li>Tested that inventory on hand at the end of the period was recorded at the lower of cost and net realisable value by testing a sample of inventory items to the most recent retail price.</li> </ul> <p>From the procedures performed we have no matters to report.</p>

***Information other than the financial statements and auditor’s report***

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not, and will not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



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### *Responsibilities of the Directors for the consolidated financial statements*

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our auditor's report.

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### *Who we report to*

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

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The engagement partner on the audit resulting in this independent auditor's report is Leopino Foliaki.

For and on behalf of:

Chartered Accountants  
18 September 2018

Christchurch