

Results announcement

(for Equity Security issuer/Equity and Debt Security issuer)



Results for announcement to the market		
Name of issuer	Kathmandu Holdings Limited	
Reporting Period	12 months to 31 July 2019	
Previous Reporting Period	12 months to 31 July 2018	
Currency	NZD	
	Amount (000s)	Percentage change
Revenue from continuing operations	\$545,618	+9.7%
Total Revenue	\$545,618	+9.7%
Net profit/(loss) from continuing operations	\$57,633	+13.7%
Total net profit/(loss)	\$57,633	+13.7%
Interim/Final Dividend		
Amount per Quoted Equity Security	\$0.12	
Imputed amount per Quoted Equity Security	\$0.04666667	
Record Date	30 September 2019	
Dividend Payment Date	11 October 2019	
	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	\$0.25	\$0.15
A brief explanation of any of the figures above necessary to enable the figures to be understood	For further information refer to the attached: <ul style="list-style-type: none">• Media announcement• Financial Statements and the Auditors Independent Review Report• Investor presentation	
Authority for this announcement		
Name of person authorised to make this announcement	Chris Kinraid	
Contact person for this announcement	Chris Kinraid	
Contact phone number	+64 3 968 6244	
Contact email address	Chris.Kinraid@kathmandu.co.nz	
Date of release through MAP	18 September 2019	

Audited financial statements accompany this announcement.

18 September 2019

(All amounts in NZ\$ unless otherwise stated)

Kathmandu delivers another record full year result

Key highlights (FY19 vs FY18):

- Successfully executing multi-channel, brand led growth strategy
- Summit Club members up 12.4% to 2.2 million
- Sales up 9.7% to \$545.6 million
 - Same store sales growth +0.6% at constant exchange rates, with Australia +2.7%
 - Oboz rapid sales growth, up 30.0% to US\$44.6 million
 - Online sales up 9.2% at constant exchange rates to \$48.4 million; now comprising 10.1% of direct to consumer sales
- Gross profit up 5.4% to \$332.5 million
- EBIT up 12.7% to \$84.3 million
- NPAT up 13.6% to \$57.6 million
- Operating cash flow \$61.7 million, with strong operating cash flow in second half of \$77.9 million
- Final FY19 fully imputed/franked dividend of NZ 12.0 cents per share; record high full year payout of NZ 16.0 cents per share

Kathmandu Holdings Limited (ASX/NZX: KMD) is pleased to announce its results for the 12 months ended 31 July 2019 (FY19), a year that delivered another record result and reflected the successful rollout of the Company's multi-channel, brand led growth strategy.

Growth across all key financial metrics, with earnings growing faster than revenue

NZ\$ million	FY19¹	FY18	Change
Sales	545.6	497.4	9.7%
Gross Profit	332.5	315.5	5.4%
EBITDA	99.6	89.8	10.9%
EBIT	84.3	74.8	12.7%
NPAT	57.6	50.7	13.6%

Commenting on the FY19 results, Kathmandu CEO Xavier Simonet said: "Over the past 12 months the team delivered another record sales and profit result. The key drivers of this growth were a positive contribution from the Australian business, and rapid sales and profit growth from Oboz."

"We were particularly pleased to grow sales in the second half of FY19, even though we were cycling strong Australian sales growth in our key winter period last year. At the same time as delivering sales growth, we maintained our focus on cost control, and benefited from wholesale operating cost efficiencies that saw us grow earnings faster than revenue. The diversification of our sales channels, brands, products, and markets, underpinned this result," added Mr Simonet.

¹ FY19 includes \$1.1 million income for prior year GST treatment of reward vouchers (\$0.8m after tax)

Kathmandu: Australia and Online performing well

Sales growth	FY19 Same stores	FY19 Total sales
Australia (A\$)	+2.7%	+4.5%
New Zealand (NZ\$)	-3.9%	-3.1%
Kathmandu Group (excl. Oboz) (constant exchange rates)	+0.6%	+2.1%

Note: Same store sales are for the 52 weeks ending 28 July 2019

Total sales in Kathmandu's largest market, Australia, were up 4.5%, with continued growth in key product categories. Same stores sales growth of +2.7% in Australia reflected the team's focus on providing a great customer shopping experience.

New Zealand sales were down 3.1%. The focus for FY20 is on driving increased foot traffic and conversion metrics in key metro markets, and the recent openings of Kathmandu flagship stores in key cities is expected to support this.

Online sales were up 9.2% at constant exchange rates, assisted by the successful re-platforming of Kathmandu's online offering. Continued enhancement of the customer experience has contributed to higher conversion rates of online traffic to sales. Online now comprises 10.1% of direct to consumer sales (FY18: 9.4%).

North America: Oboz delivering rapid sales and profit growth

Following its successful integration, the Oboz business continued to grow strongly, with FY19 pro forma sales growth of 30.0% to US\$44.6 million, and pro forma EBIT growth of 38.6% to US\$7.9 million. Oboz grew in key accounts and core styles, while also diversifying its customer and product mix.

An investment of \$1.3 million was made during FY19, establishing Kathmandu's wholesale business in North America. The early response has been positive, with FY20 orders secured for 45 doors and 5 online sites.

The overall North America contribution to FY19 Group EBIT was \$9.6 million, up from \$2.4 million in FY18.

Scale efficiencies lowering the cost of doing business

Total operating expenses increased 3.7% to \$234.0 million, including an \$11.8 million incremental increase from operating expenses relating to the first full year inclusion of Oboz, and establishment costs for Kathmandu North America.

As a percentage of sales, operating expenses fell 2.5% to 42.9% (FY18: 45.4%) reflecting the benefits of channel diversification into wholesale.

Improving balance sheet and strong cash flow enabled record full year dividend

Kathmandu's balance sheet position continues to improve, with the strong cash flows generated in FY19 supporting a \$14 million repayment of net debt and \$15.7 million capital investment in store optimisation (new stores and refurbishments) and growth enablers.

The Oboz acquisition in April 2018 added circa \$60 million in net debt. The strong operating cash flows in the subsequent 16 months have reduced the Company's net debt to \$19.3 million at 31 July 2019.

NZ\$m	FY19	FY18
Capital Expenditure	15.7	16.7
Operating Cash Flow	61.7	75.6
Net Debt	19.3	31.4
Net Debt to Equity (%)	4.2%	6.9%

A final dividend of NZ 12.0 cents per share has been declared, taking the full year dividend to NZ 16.0 cents per share, another record for Kathmandu. The final dividend will be fully imputed for New Zealand shareholders, and fully franked for Australian shareholders. The final dividend will have a record date of 30 September 2019, and payment date of 11 October 2019.

Trading performance for first seven weeks of FY20

For the seven weeks ending 15 September 2019, Group same store sales grew +6.1% at constant exchange rates. Australia same store sales grew +4.0%, and New Zealand same store sales grew +11.7% (albeit at lower gross margins). This initial period of FY20 is expected to comprise a small proportion of the 1H FY20 sales result.

Well positioned to deliver on future growth opportunities

Commenting on the outlook for Kathmandu, Mr. Simonet said: "Oboz has accelerated our transformation from a leading Australasian retailer to a global brand-led multi-channel business, and has enabled us to diversify our channels, brands, products, and markets."

"Our entire team is proud to have delivered four years of innovative products, sustained sales and profit growth, strong operating cash flows, and significant value for our shareholders. In Kathmandu and Oboz, we have two distinctive brands, with strong fundamentals and significant international growth potential, delivering great quality products to our loyal customers."

Investor briefing

An investor call will be hosted by Xavier Simonet (CEO), Reuben Casey (COO) and Chris Kinraid (CFO) at 10.00am AEST / 12:00pm NZST today, Wednesday 18 September 2019. For those wishing to participate, please dial one of the numbers below and provide the conference ID to the operator:

Australia Toll Free: 1800 870 643 or 1800 809 971
 Australia Local: +61 (0)2 9008 9006
 New Zealand Toll Free: 0800 453 055
 Conference ID: 10001855

- ENDS -



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Kathmandu Holdings Limited
FINANCIAL STATEMENTS
31 July 2019

Introduction and Table of Contents

In this section ...

The consolidated 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 consolidated 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 disclosures to assist readers' understanding and interpretation of the annual report and the financial statements.

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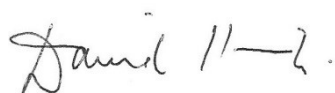
Directors' Approval of Consolidated Financial Statements For the Year Ended 31 July 2019

Authorisation for Issue

The Board of Directors authorised the issue of these Consolidated Financial Statements on 18 September 2019.

Approval by Directors

The Directors are pleased to present the Consolidated Financial Statements of Kathmandu Holdings Limited for the year ended 31 July 2019 on pages 4 to 44.



David Kirk

18/09/19

Date



Xavier Simonet

18/09/19

Date

For and on behalf of the Board of Directors

Consolidated Statement of Comprehensive Income For the Year Ended 31 July 2019

	Section	2019 NZ\$'000	2018 NZ\$'000
Sales	2.2	545,618	497,437
Cost of sales		(213,125)	(181,961)
Gross profit		<u>332,493</u>	<u>315,476</u>
Other income		1,130	-
Selling expenses	2.2	(160,581)	(155,677)
Administration and general expenses	2.2	(73,477)	(70,038)
		<u>(232,928)</u>	<u>(225,715)</u>
Earnings before interest, tax, depreciation and amortisation		99,565	89,761
Depreciation and amortisation	3.2/3.3	(15,272)	(14,958)
Earnings before interest and tax		84,293	74,803
Finance income		37	47
Finance expenses		(2,952)	(1,106)
Finance costs - net	4.1.1	(2,915)	(1,059)
		<u>81,378</u>	<u>73,744</u>
Profit before income tax		81,378	73,744
Income tax expense	2.3	(23,745)	(23,073)
		<u>57,633</u>	<u>50,671</u>
Profit after income tax		57,633	50,671
Other comprehensive income/(expense) that may be recycled through profit or loss:			
Movement in cash flow hedge reserve	4.3.2	620	8,820
Movement in foreign currency translation reserve	4.3.2	(3,297)	10,518
		<u>(2,677)</u>	<u>19,338</u>
Other comprehensive income/(expense) for the year, net of tax		(2,677)	19,338
Total comprehensive income for the year attributable to shareholders		54,956	70,009
Basic earnings per share	2.4	25.5cps	24.0cps
Diluted earnings per share	2.4	25.3cps	23.8cps
Weighted average basic ordinary shares outstanding ('000)	2.4	226,024	211,261
Weighted average diluted ordinary shares outstanding ('000)	2.4	227,989	213,187

Consolidated Statement of Changes in Equity For the Year Ended 31 July 2019

	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
Balance as at 31 July 2017	200,209	(5,322)	(19,493)	1,813	149,893	327,100
Profit after tax	-	-	-	-	50,671	50,671
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
Balance as at 31 July 2018	249,882	3,498	(8,975)	2,760	173,356	420,521
Profit after tax	-	-	-	-	57,633	57,633
Other comprehensive income	-	620	(3,297)	-	-	(2,677)
Dividends paid	-	-	-	-	(33,883)	(33,883)
Issue of share capital	1,231	-	-	(1,231)	-	-
Share based payment expense	-	-	-	721	-	721
Lapsed share options	-	-	-	(14)	14	-
Deferred tax on share-based payment transactions	-	-	-	(253)	-	(253)
Balance as at 31 July 2019	251,113	4,118	(12,272)	1,983	197,120	442,062

Consolidated Balance Sheet As At 31 July 2019

	Section	2019 NZ\$'000	2018 NZ\$'000
ASSETS			
Current assets			
Cash and cash equivalents	3.1.2	6,230	8,146
Trade and other receivables	3.1.3	14,206	13,453
Inventories	3.1.1	122,773	111,929
Derivative financial instruments	4.2	4,964	5,076
Other financial assets	3.1.4	-	22,180
Total current assets		148,173	160,784
Non-current assets			
Property, plant and equipment	3.2	60,319	63,514
Intangible assets	3.3	386,061	386,906
Total non-current assets		446,380	450,420
Total assets		594,553	611,204
LIABILITIES			
Current liabilities			
Trade and other payables	3.1.5	74,560	72,770
Derivative financial instruments	4.2	113	156
Current tax liabilities		6,458	9,968
Other financial liabilities	3.1.6	-	21,994
Total current liabilities		81,131	104,888
Non-current liabilities			
Derivative financial instruments	4.2	9	62
Interest bearing liabilities	4.1	25,500	39,500
Deferred tax liability	2.3	45,851	46,233
Total non-current liabilities		71,360	85,795
Total liabilities		152,491	190,683
Net assets		442,062	420,521
EQUITY			
Contributed equity - ordinary shares	4.3.1	251,113	249,882
Reserves	4.3.2	(6,171)	(2,717)
Retained earnings		197,120	173,356
Total equity		442,062	420,521

Consolidated Statement of Cash Flows For the Year Ended 31 July 2019

	Section	2019 NZ\$'000	2018 NZ\$'000
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		546,499	502,703
Income tax received		207	156
Interest received		621	47
		547,327	502,906
Cash was applied to:			
Payments to suppliers and employees		455,743	406,508
Income tax paid		26,673	18,710
Interest paid		3,237	2,087
		485,653	427,305
		61,674	75,601
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		1	-
Proceeds from investment in other financial assets	3.1.4	22,321	-
		22,322	-
Cash was applied to:			
Purchase of property, plant and equipment	3.2	11,345	14,300
Purchase of intangibles	3.3	4,351	2,394
Acquisition of subsidiaries	5.1	22,321	82,746
Investments in other financial assets	3.1.4	-	22,180
		38,017	121,620
		(15,695)	(121,620)
Cash flows from financing activities			
Cash was provided from:			
Proceeds of loan advances		92,606	148,815
Proceeds from share issues		-	48,702
		92,606	197,517
Cash was applied to:			
Dividends paid		33,883	27,208
Repayment of loan advances		106,606	119,907
		140,489	147,115
		(47,883)	50,402
Net increase / (decrease) in cash and cash equivalents held		(1,904)	4,383
Opening cash and cash equivalents		8,146	3,537
Effect of foreign exchange rates		(12)	226
Closing cash and cash equivalents	3.1.2	6,230	8,146

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

Section	2019 NZ\$'000	2018 NZ\$'000
Profit after taxation	57,633	50,671
<i>Movement in working capital:</i>		
(Increase) / decrease in trade and other receivables	(379)	5,272
(Increase) / decrease in inventories	(13,042)	(13,873)
Increase / (decrease) in trade and other payables	3,662	10,884
Increase / (decrease) in current tax liability	(3,260)	6,405
	<u>(13,019)</u>	<u>8,688</u>
<i>Add non-cash items:</i>		
Depreciation	3.2 11,920	11,576
Amortisation of intangibles	3.3 3,352	3,382
Foreign currency translation of working capital balances	(286)	(430)
Increase / (decrease) in deferred taxation	539	(1,891)
Employee share based remuneration	6.4 721	1,489
Loss on sale of property, plant and equipment	3.2 814	2,116
	<u>17,060</u>	<u>16,242</u>
Cash inflow from operating activities	<u>61,674</u>	<u>75,601</u>

Reconciliation of movement in term loans

Balance 31 July 2018	39,500
Net cash flow movement	(14,000)
Foreign exchange movement	-
Balance 31 July 2019	<u>25,500</u>

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 consolidated 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 United States of America.

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 consolidated 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 2019.

1.2 Summary of significant accounting policies

These consolidated 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 for-profit entities. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

The consolidated 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 consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of consolidation

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

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

Area of Estimation	Section
Business Combinations – purchase price allocation	5.1
Goodwill and Brand – 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.

31 July 2019	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	339,189	139,228	66,744	5,808	-	550,969
Inter-segment sales	(501)	(637)	(2,698)	(1,515)	-	(5,351)
Sales from external customers	338,688	138,591	64,046	4,293	-	545,618
EBITDA	59,513	33,897	10,090	(958)	(2,977)	99,565
Depreciation and software amortisation	8,983	5,765	484	40	-	15,272
EBIT	50,530	28,132	9,606	(998)	(2,977)	84,293
Income tax expense	14,482	7,594	2,388	(327)	(392)	23,745
Total segment assets	243,161	304,849	132,742	3,520	(89,719)	594,553
Total assets includes:						
Non-current assets	167,244	26,778	110,024	6	142,328	446,380
Additions to non-current assets	6,626	8,541	521	8	-	15,696
Total segment liabilities	85,521	47,911	16,417	16,684	(14,042)	152,491
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	333,683	142,977	16,119	4,658	-	497,437
EBITDA	57,744	35,154	2,535	(685)	(4,987)	89,761
Depreciation and software amortisation	8,687	6,125	116	30	-	14,958
EBIT	49,057	29,029	2,419	(715)	(4,987)	74,803
Income tax expense	14,566	8,129	761	(225)	(158)	23,073
Total segment assets	246,178	297,700	123,993	8,591	(65,258)	611,204
Total assets includes:						
Non-current assets	177,540	23,943	99,945	-	148,992	450,420
Additions to non-current assets	11,298	5,352	99,934	-	-	116,584
Total segment liabilities	82,916	59,060	25,312	21,227	2,168	190,683

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EBITDA represents earnings before income taxes (a non-GAAP measure), excluding interest income, interest expense, depreciation and amortisation, as reported in the consolidated 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

The Group recognises revenue from the sale of footwear, clothing and equipment for travel and adventure. Revenue comprises the fair value of the consideration received or receivable for the sale of goods, excluding Goods and Services Tax and discounts, and after eliminating sales within the Group.

Retail Sales

For sales of goods to retail customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at a retail outlet. Payment of the transaction price is due immediately at the point the customer purchases the goods.

Online Sales

For online sales, revenue is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been shipped to the customer's specific location. When the customer initially purchases the goods online, the transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer.

Wholesale Sales

For sales to the wholesale market, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location (delivery). Following delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when onselling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the wholesaler as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Sales Returns

Under the Group's standard contract terms, customers have a right of return within 30 days. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent level of returns over previous years.

Summit Club Loyalty Program

The Group operates a Summit Club loyalty program through which retail customers accumulate points on purchases that entitles them to discounts on future purchases. These points provide a discount to customers that they would not receive without purchasing the goods (i.e. a material right). The promise to provide the discount to the customer is therefore a separate performance obligation.

The transaction price is allocated between the product and the points on a relative stand-alone selling price basis. The stand-alone selling price per point is estimated based on the discount to be given when the points are redeemed by the customer and the likelihood of redemption, as evidenced by the Group's historical experience. A contract liability is recognised for revenue relating to the loyalty points at the time of the initial sales transaction. Revenue from the loyalty points is recognised when the points are redeemed by the customer. Revenue for points that are not expected to be redeemed is recognised in proportion to the pattern of rights exercised by customers.

Note 2.1 provides a breakdown of revenue by geographical region.

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Operating expenses

Employee entitlements

	2019	2018
	NZ\$'000	NZ\$'000
Wages, salaries and other short term benefits	86,325	85,090
Post-employment benefits	4,989	4,934
Employee share based remuneration	721	1,489

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

	2019	2018
Australia	684	672
New Zealand	432	435
United Kingdom	6	6
United States of America	22	20

(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 employee entitlements 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.

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 consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

	2019	2018
	NZ\$'000	NZ\$'000
Rental and operating lease expenses	69,187	67,429

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

	2019	2018
	NZ\$'000	NZ\$'000
Due within 1 year	52,793	54,727
Due within 1-2 years	43,786	45,037
Due within 2-5 years	83,271	85,719
Due after 5 years	26,626	34,726
	206,476	220,209

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 consolidated 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 consolidated 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 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.

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

Taxation – Consolidated statement of comprehensive income

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

	2019 NZ\$'000	2018 NZ\$'000
Current income tax charge	23,206	24,964
Deferred income tax charge / (credit)	539	(1,891)
Income tax charge reported in the consolidated statement of comprehensive income	23,745	23,073

In order to understand how, in the consolidated statement of comprehensive income, a tax charge of \$23,744,580 (2018: \$23,073,435) arises on profit before income tax of \$81,377,631 (2018: \$73,744,312), the taxation charge that would arise at the standard rate of New Zealand corporate tax is reconciled to the actual tax charge as follows:

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	2019	2018
	NZ\$'000	NZ\$'000
Profit before income tax	81,378	73,744
Income tax calculated at 28%	22,786	20,648
Adjustments to taxation:		
Adjustments due to different rate in different jurisdictions	741	1,011
Non-taxable income	(327)	(246)
Expenses not deductible for tax purposes	1,152	725
Tax legislation enacted for employee share schemes	(506)	(87)
Utilisation of tax losses by group companies	27	(26)
Tax expense transferred to foreign currency translation reserve	2	1,173
Adjustments in respect of prior years	(130)	(125)
Income tax charge reported in the consolidated statement of comprehensive income	<u>23,745</u>	<u>23,073</u>

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.

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

	2019	2018
	NZ\$'000	NZ\$'000
Movement in cash flow hedge reserve before tax	13	12,180
Tax impact relating to cash flow hedge reserve	607	(3,360)
Movement in cash flow hedge reserve after tax	<u>620</u>	<u>8,820</u>
Foreign currency translation reserve before tax	(3,297)	10,518
Tax credit / (charge) relating to foreign currency translation reserve	-	-
Movement in foreign currency translation reserve after tax	<u>(3,297)</u>	<u>10,518</u>
Total other comprehensive income/(expense) before tax	(3,284)	22,698
Total tax credit / (charge) on other comprehensive income	607	(3,360)
Total other comprehensive income/(expense) after tax	<u>(2,677)</u>	<u>19,338</u>
Current tax	-	-
Deferred tax	607	(3,360)
Total tax credit / (charge) on other comprehensive income	<u>607</u>	<u>(3,360)</u>

Unrecognised tax losses

The Group has estimated tax losses to carry forward from Kathmandu (U.K.) Limited of £10,314,275 (NZ\$19,759,147) (2018: £10,172,139 (NZ\$19,561,807)) 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

	2019	2018
	NZ\$'000	NZ\$'000
Imputation credits available for use in subsequent reporting periods based on a tax rate of 28%	<u>1,615</u>	<u>4,424</u>

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The above amounts represent the balance of the imputation account as at the end of July 2019, 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 2019 is A\$6,513,756 (2018: A\$3,891,706).

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:

	Tax depreciation NZ\$'000	Employee obligations NZ\$'000	Brand NZ\$'000	Foreign exchange NZ\$'000	Other temporary differences NZ\$'000	Reserves NZ\$'000	Total NZ\$'000
As at 31 July 2017	48	1,722	(43,580)	(185)	6,211	1,757	(34,027)
Recognised in the consolidated statement of comprehensive income	157	942	17	(212)	987	-	1,891
Recognised in other comprehensive income	-	-	-	-	-	(3,360)	(3,360)
Recognised directly in equity	-	429	-	-	-	-	429
Exchange differences	-	30	(1,387)	(5)	169	-	(1,193)
Deferred tax on business combinations (5.1)	-	-	(9,973)	-	-	-	(9,973)
As at 31 July 2018	205	3,123	(54,923)	(402)	7,367	(1,603)	(46,233)
Recognised in the consolidated statement of comprehensive income	16	(523)	51	(1,173)	1,090	-	(539)
Recognised in other comprehensive income	-	-	-	-	-	607	607
Recognised directly in equity	-	(253)	-	-	-	-	(253)
Exchange differences	(2)	(68)	868	-	(231)	-	567
As at 31 July 2019	219	2,279	(54,004)	(1,575)	8,226	(996)	(45,851)

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 consolidated 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 \$57,633,052 (2018: \$50,670,877) by the weighted average number of ordinary shares in issue during the year of 226,023,935 (2018: 211,260,697).

Diluted EPS reflects any commitments the Group has to issue shares in the future that would decrease EPS. In 2019, 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.

	2019	2018
	'000	'000
Weighted average number of basic ordinary shares in issue	226,024	211,261
Adjustment for:		
- Share options / performance rights	1,965	1,926
	<u>227,989</u>	<u>213,187</u>

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:

	2019 NZ\$'000	2018 NZ\$'000
Trading stock	105,161	89,802
Goods in transit	17,612	22,127
	<u>122,773</u>	<u>111,929</u>

Inventory has been reviewed for obsolescence and a provision of \$294,742 (2018: \$627,362) has been made.

3.1.2 Cash and cash equivalents

	2019 NZ\$'000	2018 NZ\$'000
Cash on hand	192	178
Cash at bank	6,038	7,968
	<u>6,230</u>	<u>8,146</u>

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

NZD	738	298
AUD	2,832	1,931
GBP	306	789
USD	2,238	4,905
EUR	116	223
	<u>6,230</u>	<u>8,146</u>

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3.1.3 Trade and other receivables

Accounting policies

Trade and other receivables are recognised initially at the value of the invoice sent to the customer (fair value) and subsequently at the amounts considered recoverable (amortised cost). The collectability of trade and other receivables is reviewed on an on-going basis.

An allowance for lifetime expected credit losses is recognised for trade and other receivables based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. The allowance currently held is \$114,829 (2018: \$212,610).

	2019 NZ\$'000	2018 NZ\$'000
Trade receivables	9,619	8,251
Other receivables and prepayments	4,587	5,202
	<u>14,206</u>	<u>13,453</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	2,097	1,959
AUD	1,935	2,918
USD	9,326	8,488
GBP	140	88
CAD	708	-
	<u>14,206</u>	<u>13,453</u>

3.1.4 Other financial assets

	2019 NZ\$'000	2018 NZ\$'000
Other financial assets	-	22,180

In 2018 other financial assets related to the USD \$15,000,000 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.

	2019 NZ\$'000	2018 NZ\$'000
Trade payables	30,504	24,001
Employee entitlements	8,582	13,957
Sundry creditors and accruals	34,397	33,659
Provisions	1,077	1,153
	<u>74,560</u>	<u>72,770</u>

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

	2019	2018
	NZ\$'000	NZ\$'000
NZD	11,227	12,648
AUD	40,475	45,419
GBP	679	925
EUR	137	32
USD	22,042	13,746
	<u>74,560</u>	<u>72,770</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

	2019	2018
	NZ\$'000	NZ\$'000
Other financial liabilities	-	21,994

In 2018 other financial liabilities related to the fair value of the USD \$15,000,000 contingent earn out in relation to the Oboz acquisition which was paid out fully in April 2019 (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 Derivative financial instruments	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 55% of trade receivables.

Exposure to credit risk

The below balances are recorded at their carrying amount after any allowance for expected credit loss on these financial instruments. The maximum exposure to credit risk at reporting date was (carrying amount):

	2019	2018
	NZ\$'000	NZ\$'000
Cash and cash equivalents	6,038	7,968
Trade receivables	9,619	8,251
Other receivables	1,741	2,255
Other financial assets	-	22,180
Derivative financial instruments	4,842	4,858
	<u>22,240</u>	<u>45,512</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:

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	2019 NZ\$'000	2018 NZ\$'000
<i>Cash and cash equivalents:</i>		
Standard & Poors - AA-	3,783	2,403
Standard & Poors - A+	1,861	4,570
Standard & Poors - BBB+	394	995
Total cash and cash equivalents	6,038	7,968

Past due but not impaired

As at balance sheet date, trade and other receivables of \$848,064 (2018: \$1,441,212) were past due but not impaired. These relate to wholesale customers where there is no history of default. Interest is not charged on overdue debtors. The ageing analysis of these past due trade receivables is:

	2019 NZ\$'000	2018 NZ\$'000
0 to 30 days	548	883
30 to 60 days	217	297
60 to 90 days	73	134
90 days and over	10	127
	848	1,441

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	5 – 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.

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Property, plant and equipment can be analysed as follows:

	Leasehold improvement \$'000	Office, plant & equipment \$'000	Furniture & fittings \$'000	Computer equipment \$'000	Total \$'000
Year ended 31 July 2018					
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
As at 31 July 2018					
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
Year ended 31 July 2019					
Opening net book value	40,392	1,889	19,101	2,132	63,514
Additions	5,690	554	4,447	654	11,345
Disposals	(394)	(7)	(383)	(18)	(802)
Depreciation charge	(7,536)	(356)	(3,394)	(634)	(11,920)
Exchange differences	(1,196)	1	(597)	(26)	(1,818)
Closing net book value	36,956	2,081	19,174	2,108	60,319
As at 31 July 2019					
Cost	79,218	6,692	41,726	9,633	137,269
Accumulated depreciation	(42,262)	(4,611)	(22,552)	(7,525)	(76,950)
Closing net book value	36,956	2,081	19,174	2,108	60,319

Depreciation

	2019 NZ\$'000	2018 NZ\$'000
Leasehold improvement	7,536	7,006
Office, plant and equipment	356	266
Furniture and fittings	3,394	3,745
Computer equipment	634	559
Total depreciation	11,920	11,576

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

	2019 NZ\$'000	2018 NZ\$'000
Loss on sale of property, plant and equipment	814	2,116

Capital commitments

Capital commitments contracted for at balance sheet date include property, plant and equipment of \$1,877,276 (2018: \$2,461,029).

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 10 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.

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Intangible assets

	Goodwill NZ\$'000	Brand NZ\$'000	Customer Relationship NZ\$'000	Software NZ\$'000	Total NZ\$'000
Year ended 31 July 2018					
Opening net book value	121,536	148,664	-	8,814	279,014
Additions	-	-	-	2,394	2,394
Acquisition of businesses (Note 5.1)	62,898	34,541	1,696	92	99,227
Disposals	-	-	-	(78)	(78)
Amortisation	-	-	(60)	(3,322)	(3,382)
Exchange differences	4,874	4,723	111	23	9,731
Closing net book value	189,308	187,928	1,747	7,923	386,906
As at 31 July 2018					
Cost	190,579	187,928	1,807	29,109	409,423
Accumulated amortisation/impairment	(1,271)	-	(60)	(21,186)	(22,517)
Closing net book value	189,308	187,928	1,747	7,923	386,906
Year ended 31 July 2019					
Opening net book value	189,308	187,928	1,747	7,923	386,906
Additions	-	-	-	4,351	4,351
Disposals	-	-	-	(13)	(13)
Amortisation	-	-	(184)	(3,168)	(3,352)
Exchange differences	1,013	(2,847)	55	(52)	(1,831)
Closing net book value	190,321	185,081	1,618	9,041	386,061
As at 31 July 2019					
Cost	191,592	185,081	1,868	33,206	411,747
Accumulated amortisation/impairment	(1,271)	-	(250)	(24,165)	(25,686)
Closing net book value	190,321	185,081	1,618	9,041	386,061

Impairment tests for goodwill and brand

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

Group	Goodwill		Brand	
	2019 NZ\$'000	2018 NZ\$'000	2019 NZ\$'000	2018 NZ\$'000
New Zealand	45,484	45,484	51,000	51,000
Australia	75,564	76,785	96,034	100,108
Oboz	69,273	67,039	38,047	36,820
	190,321	189,308	185,081	187,928

For the purposes of goodwill and brand impairment testing, the Group operates as three groups of cash generating units, New Zealand, Australia and Oboz. The recoverable amount of each cash generating unit 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. The key assumptions used for the value in use calculation are as follows:

	2019	2018
Terminal growth rate	1.0%	1.0%
New Zealand CGU pre-tax discount rate	11.2%	12.4%
Australia CGU pre-tax discount rate	10.5%	12.2%
Oboz CGU pre-tax discount rate	12.7%	-

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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 goodwill and brand during the year (2018: 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 and Oboz brands supports the assumption that the brand has an indefinite life.

Capital commitments

Capital commitments contracted for at balance sheet date include intangible assets of \$703,611 (2018: \$748,139).

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 consolidated 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:

	2019 NZ\$'000	2018 NZ\$'000
Current portion	-	-
Non-current portion	25,500	39,500
Total term loans	25,500	39,500

The Group has a multi-option facility agreement with Commonwealth Bank of Australia and ASB Bank Limited, with A\$45 million repayable in full on 1 August 2022, A\$15 million repayable in full on 1 August 2021, 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 2019 financial year (2018: 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 2019.

The current interest rates, prior to hedging, on the term loans ranged between 2.31% - 2.47% (2018: 2.60% - 3.17%).

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	2019 NZ\$'000	2018 NZ\$'000
The principal of interest bearing liabilities is:		
Payable within 1 year	-	-
Payable 1 to 2 years	-	39,500
Payable 2 to 3 years	15,000	-
Payable 3 to 4 years	10,500	-
	25,500	39,500

4.1.1 Finance costs

	2019 NZ\$'000	2018 NZ\$'000
Interest income	(37)	(47)
Interest expense	1,877	1,389
Other finance costs	886	652
Net exchange loss/(gain) on foreign currency borrowings	189	(935)
	2,915	1,059

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):

	2019 NZ\$'000	2018 NZ\$'000
Total secured loans	25,500	39,500
less Principal covered by interest rate swaps	(23,263)	(37,587)
Net Principal subject to floating interest rates ¹	2,237	1,913

- 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 loss on interest rate swaps at balance sheet date was \$111,252 (2018: \$117,340).

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% (2018: 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.

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31 July 2019	-1%		+1%		
	Carrying amount \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Derivative financial instruments (asset) / liability	(4,842)	(235)	154	235	(151)
Financial assets					
Cash	6,230	(45)	-	45	-
Financial liabilities					
Borrowings	25,500	255	-	(255)	-
Total increase / (decrease)		(25)	154	25	(151)

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)
Financial assets					
Cash	8,146	(59)	-	59	-
Financial liabilities					
Borrowings	39,500	395	-	(395)	-
Total increase / (decrease)		(40)	323	40	(312)

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 \$137,849,687 / AUD \$132,060,000 (2018: NZD \$140,729,053 / AUD \$129,330,000 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.

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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.

	Less than 1 year NZ\$'000	Between 1 and 2 years NZ\$'000	Between 2 and 5 years NZ\$'000	Over 5 years NZ\$'000
Group 2019				
Trade and other payables	62,075	-	-	-
Other financial liabilities	-	-	-	-
Borrowings	600	599	25,751	-
	<u>62,675</u>	<u>599</u>	<u>25,751</u>	<u>-</u>
Group 2018				
Trade and other payables	55,492	-	-	-
Other financial liabilities	21,994	-	-	-
Borrowings	1,116	40,619	-	-
	<u>78,602</u>	<u>40,619</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.

	Less than 1 year NZ\$'000	Between 1 and 2 years NZ\$'000	Between 2 and 5 years NZ\$'000
At 31 July 2019			
Forward foreign exchange contracts			
- Inflow	118,968	-	-
- Outflow	(114,015)	-	-
Net Inflow / (Outflow)	<u>4,953</u>	<u>-</u>	<u>-</u>
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	<u>(46)</u>	<u>9</u>	<u>-</u>
At 31 July 2018			
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>

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).

At inception of the hedging relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of the hedged items. The Group also documents its risk management objectives and strategy for undertaking its hedge transactions.

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 consolidated statement of comprehensive income.

Amounts accumulated in equity are recycled in the consolidated 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 consolidated 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 consolidated statement of comprehensive income.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated 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.

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Derivative financial instruments

	2019 NZ\$'000	2018 NZ\$'000
Foreign exchange contracts		
Current asset	4,964	5,076
Current liability	(11)	(101)
Net foreign exchange contracts – cash flow hedge (asset / (liability))	4,953	4,975
Interest rate swaps		
Current liability	(102)	(55)
Non-current liability	(9)	(62)
Net interest rate swaps – cash flow hedge (asset / (liability))	(111)	(117)
Total derivative financial instruments	4,842	4,858

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 \$23,263,048 (2018: \$37,586,507). The fixed interest rates range between 1.32% and 2.63% (2018: 2.12% and 3.05%). 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\$79,350,000, NZ\$115,606,572 (2018: US\$102,300,000, NZ\$144,562,936).

No material hedge ineffectiveness for interest rate swaps or foreign exchange contracts exists as at balance sheet date (2018: 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, United States of America 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.

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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% (2018: -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% (2018: -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
31 July 2019					
Derivative financial instruments (asset) / liability	(4,842)	-	(13,339)	-	10,915
Financial assets					
Cash	6,230	439	-	(359)	-
Trade receivables and other receivables	11,360	(806)	-	706	-
Other financial assets	-	-	-	-	-
		(367)	-	347	-
Financial liabilities					
Trade and other payables	74,560	(5,067)	-	4,145	-
Other financial liabilities	-	-	-	-	-
Borrowings	25,500	-	-	-	-
		(5,067)	-	4,145	-
Total increase / (decrease)		(5,434)	(13,339)	4,492	10,915

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

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 2019 are presented in the consolidated 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

	2019 NZ\$'000	2018 NZ\$'000
Ordinary shares fully paid (\$)	251,113	249,882
Balance at beginning of year	249,882	200,209
Issue of shares under Executive and Senior Management Long Term Incentive Plan	1,231	971
Shares issued under share placement and share purchase plan	-	48,702
Balance at end of year	251,113	249,882

Number of issued shares

	2019 '000	2018 '000
Ordinary shares issued at beginning of the year	225,315	201,497
Shares issued under Executive and Senior Management Long Term Incentive Plan	874	670
Shares issued under share placement and share purchase plan	-	23,148
Ordinary shares issued at end of the year	226,189	225,315

As at 31 July 2019 there were 226,188,531 ordinary issued shares in Kathmandu Holdings Limited and these are classified as equity.

873,712 shares (2018: 669,669) were issued under the "Executive and Senior Management Long Term Incentive Plan 24 November 2010" during the year.

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.

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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

		2019 NZ\$'000	2018 NZ\$'000
(i) Cash flow hedging reserve			
Opening balance		3,498	(5,322)
Revaluation - gross		(9,772)	13,865
Deferred taxation on revaluation	2.3	607	(3,360)
Transfer to hedged asset		9,579	(1,757)
Transfer to net profit - gross		206	72
Closing balance		<u>4,118</u>	<u>3,498</u>
(ii) Foreign currency translation reserve			
Opening balance		(8,975)	(19,493)
Currency translation differences – Gross		(3,297)	10,518
Currency translation differences – Taxation	2.3	-	-
Closing balance		<u>(12,272)</u>	<u>(8,975)</u>
(iii) Share based payments reserve			
Opening balance		2,760	1,813
Current year amortisation		721	1,489
Deferred taxation on share options	2.3	(253)	429
Transfer to Share Capital on vesting of shares to Employees		(1,231)	(971)
Share Options / Performance Rights lapsed		(14)	-
Closing balance		<u>1,983</u>	<u>2,760</u>
Total Reserves		<u>(6,171)</u>	<u>(2,717)</u>

4.3.3 Dividends

	2019 NZ\$'000	2018 NZ\$'000
Prior year final dividend paid	24,836	18,195
Current year interim dividend paid	9,047	9,013
Dividends paid (\$0.15 per share (2018: \$0.13))	<u>33,883</u>	<u>27,208</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

In 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 based on an EBITDA target for the year ending 31 December 2018.

In accordance with the sale and purchase agreement the full contingent earn out of NZD\$22,321,000 (USD\$15,000,000) was paid in April 2019. This cash consideration was paid using funds held in escrow on term deposit since acquisition.

The acquisition accounting fair value adjustments were on a provisional basis in the Group's 31 July 2018 consolidated financial statements. The acquisition accounting adjustments have now been finalised and updated to reflect independent valuations performed on the net assets recognised on acquisition. As a result, the following adjustments (in NZD) have been recognised in the prior period; a decrease in the customer relationship (\$11,984,000), a decrease in the deferred tax liability (\$3,552,000), an increase in retained earnings (\$139,000) and a corresponding increase in goodwill (\$8,571,000).

Final Purchase Price Allocation

	NZD\$'000
Purchase price	103,164
Less indebtedness settled on acquisition	(8,349)
Plus settlement adjustments	2,253
Total net consideration	<u>97,068</u>
<i>Recognised amounts of identifiable assets acquired and liabilities assumed;</i>	
Current assets	
Cash and cash equivalents	600
Trade and other receivables	11,767
Inventories	6,786
Non-current assets	
Property, plant and equipment	663
Intangible assets	92
Customer relationships	1,696
Brand	34,541
Current liabilities	
Trade and other payables	(5,087)
Non-current liabilities	
Interest bearing liabilities	(6,915)
Deferred tax	(9,973)
Net assets acquired	<u>34,170</u>
Goodwill on acquisition	62,898
Total net consideration	<u>97,068</u>

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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
			2019	2018	
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%	100%	31 July
Oboz Footwear LLC	Footwear wholesaler	USA	100%	100%	31 December

Section 6: Other Notes

6.1 Related parties

All transactions with related parties were in the normal course of business and provided on commercial terms. No amounts owed to related parties have been written off or forgiven during the period.

Key Management Personnel

	2019 NZ\$'000	2018 NZ\$'000
Salaries	3,414	3,031
Other short-term employee benefits	457	1,195
Post-employment benefits	117	111
Employee performance rights	491	929
	4,479	5,266

Key Management Personnel include the following employees:

Executive Directors:

- Chief Executive Officer

Senior Managers:

- Chief Operating Officer
- Chief Financial Officer and Company Secretary

Other Key Management Personnel:

- General Manager, Product
- General Manager, Marketing and Online
- General Manager, Supply Chain
- General Manager, Human Resources
- Chief Information Officer
- General Manager, Retail Stores and Operations
- General Manager Merchandising
- President Oboz / Kathmandu North America

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 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. These are calculated at the present value of the estimated future cash flows, based on observable yield curves and the fair value of forward foreign exchange contracts, as 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.

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6.3 Remuneration detail

2019	Short-term benefits			Post-employment benefits	Share based payments			
	Cash Salary and fees	Cash bonus	Non-Monetary benefits	Super-annuation	Performance Rights ¹	Equity related	Total	Performance related
Name	\$	\$	\$	\$	\$	%	\$	%
Non-Executive Directors								
David Kirk	255,006	-	-	-	-	0.0%	255,006	0.0%
John Harvey	133,629	-	-	-	-	0.0%	133,629	0.0%
Sandra McPhee	133,629	-	-	-	-	0.0%	133,629	0.0%
Philip Bowman	133,629	-	-	-	-	0.0%	133,629	0.0%
Brent Scrimshaw	133,629	-	-	-	-	0.0%	133,629	0.0%
	789,522	-	-	-	-	0.0%	789,522	0.0%
Executive Directors								
Xavier Simonet	854,336	127,587	-	21,635	227,691	18.5%	1,231,249	28.9%
	854,336	127,587	-	21,635	227,691	18.5%	1,231,249	28.9%
Senior Managers and Other Key Management Personnel								
Reuben Casey	409,061	27,846	3,440	12,272	87,441	16.2%	540,060	21.3%
Chris Kinraid ²	51,524	21,938	325	1,546	7,845	9.4%	83,178	35.8%
Other Management	2,099,024	259,528	16,367	81,451	167,764	6.4%	2,624,134	16.3%
Total	4,203,467	436,899	20,132	116,904	490,741	9.3%	5,268,143	17.6%

1. This represents the accounting expense of amortising the value of performance rights during the year (refer to note 6.4). 618,555 performance rights were vested and issued to key management personnel during FY2019 of which 51,020 related to Reuben Casey and 407,463 related to Xavier Simonet. 2. CFO from 14 May 2019.

2018	Short-Term Benefits			Post-employment benefits	Share based payments			
	Cash Salary and fees	Cash bonus	Non-Monetary benefits	Super-annuation	Performance Rights ¹	Equity related	Total	Performance related
Name	\$	\$	\$	\$	\$	%	\$	%
Non-Executive Directors								
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%
	746,246	-	-	-	-	0.0%	746,246	0.0%
Executive Directors								
Xavier Simonet	858,480	528,091	-	21,744	398,637	22.1%	1,806,952	51.3%
	858,480	528,091	-	21,744	398,637	22.1%	1,806,952	51.3%
Senior Managers and Other Key Management Personnel								
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%
Total	3,777,391	1,184,568	10,863	111,270	928,757	15.4%	6,012,849	35.1%

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.

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 consolidated 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 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 2018	-	261,388	-	-	261,388
20 Dec 2017	374,437	-	-	-	374,437
19 Dec 2016	375,810	-	-	-	375,810
16 Dec 2015	407,463	-	(407,463)	-	-
	1,157,710	261,388	(407,463)	-	1,011,635

The performance rights granted on 20 December 2018 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 2018	1	50%	50%
20 Dec 2017	1	50%	50%
19 Dec 2016	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 th percentile	0%
50 th percentile	50%
51 st – 74 th percentile	50% + 2% for each percentile above the 50 th
75 th percentile or above	100%

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The TSR performance is calculated for the following performance periods:

Tranche	2019	2018
Tranche 1	36 months to 1 December 2021	36 months to 1 December 2020

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:

	2019	2018
Fair value of TSR rights	\$205,190	\$267,161
Current price at grant date	\$2.77	\$2.42
Risk free interest rate	1.76%	2.06%
Expected life (years)	3	3
Expected share volatility	28.9%	43.0%

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 2018. The applicable performance periods are:

Tranche	2019 Performance Period	2018 Performance Period
Tranche 1	FY21 EPS relative to FY18 EPS	FY20 EPS relative to FY17 EPS

The percentage of the 2019 EPS growth related rights scales according to the compound average annual EPS growth achieved as follows:

EPS Growth	2019 % Rights Vesting	EPS Growth	2018 % Rights Vesting
< 7%	0%	< 7%	0%
>=7%, < 8%	50%	>=7%, < 8%	50%
>=8%, < 9%	60%	>=8%, < 9%	60%
>=9%, < 10%	70%	>=9%, < 10%	70%
>=10%, < 11%	80%	>=10%, < 11%	80%
>=11%, < 12%	90%	>=11%, < 12%	90%
>=12%	100%	>=12%	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 are all Short Term Incentives under the shareholder approved Employee Long Term Incentive Plan, and 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
18 Dec 2018	-	524,220	-	(524,220)	-
11 Dec 2017	568,941	-	-	(17,755)	551,186 ¹
07 Dec 2016	466,249	-	(466,249)	-	-

¹ Remaining performance rights on vesting date 31 July 2019, which were subsequently issued on 14 August 2019.

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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:

	2019	2018
Grant Date	18 Dec 2018	11 Dec 2017
Performance period (year ending)	31 Jul 2019	31 Jul 2018
Vesting Date – Other Key Management Personnel and Wider Leadership Management	31 Jul 2020	31 Jul 2019

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\$2.54 per right (2018: NZ\$2.14).

The non-market performance hurdles set for the year ending 31 July 2019 were met and accordingly an expense has been recognised in the consolidated statement of comprehensive income.

Expenses arising from equity settled share based payments transactions

	2019 NZ\$'000	2018 NZ\$'000
Executive Director	228	399
Key Management Personnel and Wider Leadership Management	493	1,090
	721	1,489

6.5 Contingent liabilities

There are no contingent liabilities in 2019 (2018: nil).

6.6 Contingent assets

There are no contingent assets in 2019 (2018: nil).

6.7 Events occurring after balance sheet date

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

6.8 Supplementary information

Directors fees

	2019 NZ\$'000	2018 NZ\$'000
Directors' fees	790	746

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

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

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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:

	2019 NZ\$'000	2018 NZ\$'000
Audit services - PricewaterhouseCoopers		
Group audit – PwC New Zealand	186	155
UK Statutory audit – PwC UK	20	20
Half year review	36	33
Non-audit services - PricewaterhouseCoopers		
Revenue Certificates	12	16
Banking compliance certificates	3	2
Total remuneration for PricewaterhouseCoopers services	257	226

6.9 New accounting standards

New standards first applied in the year

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 has assessed which business models apply to its financial assets and classified these into the appropriate categories under NZ IFRS 9. The only reclassification arising is the financial assets previously classified as loans and receivables now fall into the amortised cost category.</p> <p>The financial assets classified in the amortised cost category are now 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.</p> <p>NZ IFRS 9 does not impact the classification or measurement of the Group's financial liabilities.</p> <p>The new hedge accounting rules align the accounting for hedging instruments more closely with the group's risk management practices. The Group has confirmed that its current hedge relationships qualify as continuing hedges under NZ IFRS 9. Accordingly, 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 has been changed in these consolidated financial statements for the period ending 31 July 2019.</p>

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<p>NZ IFRS 15 Revenue from Contracts with Customers</p>	<p>1 August 2018</p>	<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>The group has reviewed its revenue recognition policies upon adoption of NZ IFRS 15 and noted no material impact.</p> <p>Work focused on segregating the different revenue streams within the business. The majority of revenue is made up of in store transactions with 21% earned through online and wholesale sales.</p> <p>The following matters were identified to be relevant to the Group under NZ IFRS 15:</p> <ul style="list-style-type: none"> - A customers' right of return in determining revenue to be recognised. Return rates for sales were analysed and it was determined that there was no material impact from adoption of NZ IFRS 15. - 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. After assessment of the Group's current accounting policies there is no material impact from adoption of NZ IFRS 15.
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Standards, interpretations and amendments to published standards that are not yet effective

<p>New Accounting Standard</p>	<p>Effective Date Applicable to the Group</p>	<p>Summary of Changes</p>	<p>Group Impact</p>
<p>NZ IFRS 16 Leases</p>	<p>1 August 2019</p>	<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>The implementation plan for the new standard is now complete including;</p> <ul style="list-style-type: none"> - Identification of leases and contracts that include a lease; - Collation of lease data required for the calculation of the impact assessment; - Identification of necessary changes to systems and processes required to enable reporting and accounting in accordance with the new standard; and - Selection of appropriate accounting policies around transition method, discount rates and estimates of lease-term for leases with options. <p>The Group will adopt the simplified transition approach under NZ IFRS 16 in the period ending 31 July 2020 and will not restate comparative amounts.</p> <p>Note 2.2 reflects that as at 31 July 2019 the Group had lease commitments for operating leases of \$206m.</p>

			<p>Based on the current leasing arrangements as at 31 July 2019 the application of NZ IFRS 16 is expected to have the following impact on the group balance sheet;</p> <ul style="list-style-type: none"> - Recognition of a right of use asset of approximately \$177m; - Recognition of a lease liability of approximately \$212m; - Reduction in trade and other payables of approximately \$13m; - Reduction in the deferred tax liability of approximately \$10m; and - Reduction in opening retained earnings of approximately \$12m. <p>The impact on the consolidated statement of comprehensive income for the year ended 31 July 2020 is expected to be a;</p> <ul style="list-style-type: none"> - Reduction in selling and administration and general expenses of approximately \$59m; - Increase in depreciation and amortisation of approximately \$51m; - Increase in finance expenses of approximately \$7m. <p>The impact on each of these line items is expected to be significant however the overall net profit after tax is expected to be immaterial.</p> <p>Operating cash flows for the year ended 31 July 2020 are expected to increase by \$48m under NZ IFRS 16 as result of reclassifying rent payments to financing activities reflecting the repayment of lease liabilities.</p> <p>The above has no effect to the Group and the change is for financial reporting purposes only.</p> <p>Current estimates are likely to change for the period ending 31 July 2020, mainly due to;</p> <ul style="list-style-type: none"> - Subsequent movements in the discount rate; - New lease contracts entered into by the Group; - Any changes to existing lease contracts; and - Change in management's judgement to exercise rights of renewals under lease arrangements.
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Independent auditor's report

To the shareholders of Kathmandu Holdings Limited

We have audited the consolidated financial statements which comprise:

- the consolidated balance sheet as at 31 July 2019;
- 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 accompanying 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 2019, 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).

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 an assurance compliance engagement in respect of bank 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: \$4 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 \$400,000.

We have determined that there is two key audit matters:

- Finalisation of the Oboz Footwear LLC purchase price allocation; and
- 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 Kathmandu 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><i>Finalisation of the Oboz Footwear LLC purchase price allocation</i></p> <p>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 \$22.3 million was contingent on an EBITDA target being met for the year ending 31 December 2018.</p> <p>The purchase price included identifiable tangible and intangible assets acquired and liabilities assumed.</p> <p>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>In addition to Goodwill of \$62.9 million management identified intangible assets relating to Brand and Customer Relationships held by Oboz valued at \$34.5 million and \$1.7 million respectively.</p> <p>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>In responding to the significant judgements involved in identifying and valuing the intangible assets acquired we:</p> <ul style="list-style-type: none"> • 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; • Confirmed the final EBITDA target was achieved and the contingent consideration was paid; • 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; • Considered whether identification and recognition of intangible assets was consistent with the requirements of the accounting standards; • Engaged our internal valuation expert to assess the appropriateness of assets identified and the valuation methodology applied by managements expert; • Discussed the valuation methodology and assumptions with managements expert; and • Considered whether the relevant disclosures were appropriate in the consolidated financial statements. <p>From the procedures performed we have no matters to report.</p>



Key audit matter	How our audit addressed the key audit matter
<p data-bbox="277 427 692 461"><i>Inventory valuation and existence</i></p> <p data-bbox="277 472 740 864">At 31 July 2019, the Group held inventories of \$122.8 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. 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="277 882 740 1301">The Group has systems and processes including a barcode inventory management system to accurately record inventory movements. 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 data-bbox="277 1319 740 1563">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>	<p data-bbox="778 427 1362 488">We performed a number of audit procedures over inventory existence and valuation. We</p> <ul data-bbox="778 506 1465 1733" style="list-style-type: none"><li data-bbox="778 506 1465 595">• Observed the stocktake process at selected store locations near period end and undertook our own test counts;<li data-bbox="778 600 1465 660">• Attended the year end Oboz distribution centre count and performed independent test counts;<li data-bbox="778 665 1465 842">• Validated all stores had been counted twice in the year by an independent third party 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 data-bbox="778 846 1465 1023">• 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 data-bbox="778 1028 1465 1205">• 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 data-bbox="778 1209 1465 1299">• Assessed store inventory counts performed post year end to ensure the actual level of shrinkage was consistent with the year-end provisioning;<li data-bbox="778 1303 1465 1426">• Held discussions with management, including merchandising personnel, to understand and corroborate the assumptions applied in estimating inventory provisions;<li data-bbox="778 1431 1465 1608">• 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 during the period compared to prior periods; and<li data-bbox="778 1612 1465 1733">• 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. <p data-bbox="778 1751 1426 1807">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, except that not all other information was available to us at the date of our signing.

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.

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.

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.

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 2019

Christchurch