

**Kathmandu Holdings Limited**  
**New Zealand Stock Exchange Listing Rules**  
**Disclosure**  
**Full Year Report**  
**For the year ending 31 July 2017**

**Contents**

Appendix 1  
Media Announcement  
Financial Statements  
Auditors' Report

## Appendix 1

### Kathmandu Holdings Limited

#### Results for announcement to the market

Reporting Period: 12 months ending 31 July 2017  
 Previous Reporting Period: 12 months ending 31 July 2016

	Amount (000's)	Percentage change
Revenues from ordinary activities	\$NZ 445,348	4.6%
Profit from ordinary activities after tax attributable to security holder	\$NZ 38,039	13.5%
Net profit attributable to security holders	\$NZ 38,039	13.5%

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

Dividends (NZ \$)	Amount per security	Imputed amount per security
Interim Dividend (paid 16 June 2017)	\$NZ 0.04	\$NZ 0.016
Final Dividend	\$NZ 0.09	\$NZ 0.035

Record Date for Final Dividend	13 November 2017
Payment date for Final Dividend	24 November 2017

#### Financial Information

The Appendix 1 should be read in conjunction with the consolidated financial statements for the year ended 31 July 2017.

	2017 \$	2016 \$
Net tangible assets per security	0.24	0.16

#### Accounting Standards

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

#### Information on Audit or Review

The report is based on financial statements which have been audited. The audit report, which is unqualified, is on page 41 of the financial statements.

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

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

**Kathmandu Holdings Limited**  
**FINANCIAL STATEMENTS**  
**31 July 2017**

## Introduction and Table of Contents

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

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

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

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

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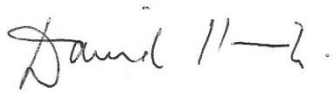
## Directors' Approval of Consolidated Financial Statements For the Year Ended 31 July 2017

### Authorisation for Issue

The Board of Directors authorised the issue of these Consolidated Financial Statements on 26 September 2017.

### Approval by Directors

The Directors are pleased to present the Consolidated Financial Statements of Kathmandu Holdings Limited for the year ended 31 July 2017 on pages 4 to 40.



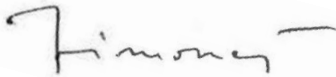
26 September 2017

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David Kirk

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Date



26 September 2017

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Xavier Simonet

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Date

For and on behalf of the Board of Directors

## Consolidated Statement of Comprehensive Income For the Year Ended 31 July 2017

	Section	2017 NZ\$'000	2016 NZ\$'000
Sales		445,348	425,593
Cost of sales		(169,165)	(159,232)
Gross profit		<u>276,183</u>	<u>266,361</u>
Selling expenses		(143,740)	(139,285)
Administration and general expenses		(61,613)	(62,278)
		<u>(205,353)</u>	<u>(201,563)</u>
<b>Earnings before interest, tax, depreciation and amortisation</b>		<b>70,830</b>	<b>64,798</b>
Depreciation and amortisation	3.2/3.3	(13,826)	(13,917)
<b>Earnings before interest and tax</b>		<b>57,004</b>	<b>50,881</b>
Finance income		28	26
Finance expenses		(2,058)	(3,582)
Finance costs - net	4.1.1	(2,030)	(3,556)
		<u>54,974</u>	<u>47,325</u>
<b>Profit before income tax</b>		<b>54,974</b>	<b>47,325</b>
Income tax expense	2.3	(16,935)	(13,804)
		<u>38,039</u>	<u>33,521</u>
<b>Profit after income tax</b>		<b>38,039</b>	<b>33,521</b>
<b>Other comprehensive income that may be recycled through profit and loss:</b>			
Movement in cash flow hedge reserve	4.3.2	209	(15,891)
Movement in foreign currency translation reserve	4.3.2	209	(6,384)
		<u>418</u>	<u>(22,275)</u>
<b>Other comprehensive income/(expense) for the year, net of tax</b>		<b>418</b>	<b>(22,275)</b>
<b>Total comprehensive income for the year attributable to shareholders</b>		<b>38,457</b>	<b>11,246</b>
<b>Basic earnings per share</b>	2.4	18.9cps	16.6cps
<b>Diluted earnings per share</b>	2.4	18.7cps	16.6cps
<b>Weighted average basic ordinary shares outstanding ('000)</b>	2.4	201,489	201,484
<b>Weighted average diluted ordinary shares outstanding ('000)</b>	2.4	203,324	202,439

## Consolidated Statement of Changes in Equity For the Year Ended 31 July 2017

	Share Capital NZ\$'000	Cash Flow Hedge Reserve NZ\$'000	Foreign Currency Translation Reserve NZ\$'000	Share Based Payments Reserve NZ\$'000	Retained Earnings NZ\$'000	Total Equity NZ\$'000
<b>Balance as at 31 July 2015</b>	<b>200,191</b>	<b>10,360</b>	<b>(13,318)</b>	<b>24</b>	<b>118,607</b>	<b>315,864</b>
Profit after tax	-	-	-	-	33,521	33,521
Other comprehensive income	-	(15,891)	(6,384)	-	-	(22,275)
Dividends paid	-	-	-	-	(16,119)	(16,119)
Issue of share capital	-	-	-	-	-	-
Share options / performance rights lapsed	-	-	-	(24)	24	-
Share based payment expense	-	-	-	692	-	692
<b>Balance as at 31 July 2016</b>	<b>200,191</b>	<b>(5,531)</b>	<b>(19,702)</b>	<b>692</b>	<b>136,033</b>	<b>311,683</b>
Profit after tax	-	-	-	-	38,039	38,039
Other comprehensive income/(expense)	-	209	209	-	-	418
Dividends paid	-	-	-	-	(24,179)	(24,179)
Issue of share capital	18	-	-	(18)	-	-
Share options / performance rights lapsed	-	-	-	-	-	-
Share based payment expense	-	-	-	1,139	-	1,139
<b>Balance as at 31 July 2017</b>	<b>200,209</b>	<b>(5,322)</b>	<b>(19,493)</b>	<b>1,813</b>	<b>149,893</b>	<b>327,100</b>

## Consolidated Balance Sheet As At 31 July 2017

	Section	2017 NZ\$'000	2016 NZ\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3.1.2	3,537	6,891
Trade and other receivables	3.1.3	6,284	5,031
Inventories	3.1.1	89,206	95,436
<b>Total current assets</b>		<b>99,027</b>	<b>107,358</b>
<b>Non-current assets</b>			
Property, plant and equipment	3.2	61,026	61,609
Intangible assets	3.3	279,014	280,083
<b>Total non-current assets</b>		<b>340,040</b>	<b>341,692</b>
<b>Total assets</b>		<b>439,067</b>	<b>449,050</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	3.1.4	56,735	51,084
Derivative financial instruments	4.2	7,034	7,529
Current tax liabilities		3,475	1,212
<b>Total current liabilities</b>		<b>67,244</b>	<b>59,825</b>
<b>Non-current liabilities</b>			
Derivative financial instruments	4.2	265	604
Interest bearing liabilities	4.1	10,431	43,691
Deferred tax	2.3	34,027	33,247
<b>Total non-current liabilities</b>		<b>44,723</b>	<b>77,542</b>
<b>Total liabilities</b>		<b>111,967</b>	<b>137,367</b>
<b>Net assets</b>		<b>327,100</b>	<b>311,683</b>
<b>EQUITY</b>			
Contributed equity - ordinary shares	4.3.1	200,209	200,191
Reserves	4.3.2	(23,002)	(24,541)
Retained earnings		149,893	136,033
<b>Total equity</b>		<b>327,100</b>	<b>311,683</b>



## Consolidated Statement of Cash Flows For the Year Ended 31 July 2017

	Section	2017 NZ\$'000	2016 NZ\$'000
<b>Cash flows from operating activities</b>			
<b>Cash was provided from:</b>			
Receipts from customers		444,100	424,182
Income tax received		-	1,357
Interest received		28	26
		444,128	425,565
<b>Cash was applied to:</b>			
Payments to suppliers and employees		360,122	336,968
Income tax paid		14,571	16,688
Interest paid		2,162	2,829
		376,855	356,485
<b>Net cash inflow from operating activities</b>		<b>67,273</b>	<b>69,080</b>
<b>Cash flows from investing activities</b>			
<b>Cash was provided from:</b>			
Proceeds from sale of property, plant and equipment		1	5
		1	5
<b>Cash was applied to:</b>			
Purchase of property, plant and equipment	3.2	11,419	20,729
Purchase of intangibles	3.3	1,857	2,467
		13,276	23,196
<b>Net cash outflow from investing activities</b>		<b>(13,275)</b>	<b>(23,191)</b>
<b>Cash flows from financing activities</b>			
<b>Cash was provided from:</b>			
Proceeds of loan advances		90,330	63,047
Proceeds from share issues		-	-
		90,330	63,047
<b>Cash was applied to:</b>			
Dividends paid		24,179	16,119
Repayment of loan advances		123,533	87,658
		147,712	103,777
<b>Net cash outflow from financing activities</b>		<b>(57,382)</b>	<b>(40,730)</b>
<b>Net increase / (decrease) in cash held</b>		<b>(3,384)</b>	<b>5,159</b>
Opening cash and cash equivalents		6,891	1,700
Effect of foreign exchange rates		30	32
<b>Closing cash and cash equivalents</b>	3.1.2	<b>3,537</b>	<b>6,891</b>

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

		2017	2016
	Section	NZ\$'000	NZ\$'000
Profit after taxation		38,039	33,521
<i>Movement in working capital:</i>			
(Increase) / decrease in trade and other receivables		(1,249)	(1,440)
(Increase) / decrease in inventories		6,283	13,528
Increase / (decrease) in trade and other payables		5,596	8,735
Increase / (decrease) in tax liability		2,257	(388)
		12,887	20,435
<i>Add non cash items:</i>			
Depreciation	3.2	10,630	10,019
Amortisation of intangibles	3.3	3,196	3,898
Impairment of Assets	3.2	-	1,094
Revaluation of derivative financial instruments		(816)	5,436
Increase / (decrease) in deferred taxation		733	(6,481)
Employee share based remuneration	5.4	1,139	692
Loss on sale of property, plant and equipment	3.2	1,465	466
		16,347	15,124
<b>Cash inflow from operating activities</b>		<b>67,273</b>	<b>69,080</b>

## Notes to the Financial Statements

### Section 1: Basis of Preparation

**In this section ...**

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

#### 1.1 General information

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

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

The Company is listed on the NZX and ASX.

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

These audited consolidated financial statements have been approved for issue by the Board of Directors on 26 September 2017.

#### 1.2 Summary of significant accounting policies

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

The financial statements are presented in New Zealand dollars, which is the Company's functional currency and Group's presentation currency.

##### 1.2.1 Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

##### Entities reporting

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

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

##### Principles of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

##### Historical cost convention

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

## Critical accounting estimates

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

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

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

Area of Estimation	Section
Goodwill – assumptions underlying recoverable value	3.3
Inventory – estimates of obsolescence	3.1.1
Fair value of derivatives – assumptions underlying fair value	4.2

## Foreign currency translation

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

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

All resulting exchange differences are recognised in other comprehensive income.

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

## 1.3 Restatement of prior year

In October 2006, on acquisition of the Kathmandu business, the Group recognised an indefinite life brand with a fair value of \$160.3m. No deferred tax was recognised in relation to the asset at the time of acquisition. This was based on the assumption that because an indefinite life brand is not amortised, its carrying amount is not expected to be consumed, rather, its carrying amount is expected to be recovered entirely through sale.

In November 2016, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision regarding the determination of the expected manner of recovery of intangible assets with indefinite useful life for the purposes of measuring deferred tax, in accordance with IAS 12 Income Taxes. This provided additional guidance on how an entity recovers the carrying value of such assets and the consequences for the measurement and recognition of deferred tax.

Following this additional guidance, the Group has reviewed the expected manner of recovery of the carrying amount of indefinite life Kathmandu brand and concluded that its carrying amount is expected to be recovered through use of the brand within its business. As a result, the Group has recognised additional goodwill, deferred tax liability and retained earnings as follows:

	<u>NZ\$'000</u>
Goodwill	47,429
Deferred tax liability	44,879
Retained earnings	2,550

At the date of acquisition the tax rates in New Zealand and Australia were 33% and 30% respectively. As the New Zealand tax rate has reduced from 33% to 28% over the period the deferred tax liability has been measured at the new tax rate. This has resulted in a release of the liability through the income tax expense and ultimately increased retained earnings in the period of the change in tax rate.

Comparatives for goodwill (note 3.3), deferred tax liability (note 2.3) and retained earnings at 31 July 2016 and 1 August 2015 have been restated. This adjustment has no impact on profit in the reported periods.

As the restatement amount only affects three line-items in the balance sheet as described above, an opening comparative balance sheet has not been provided.

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

The Group operates in three geographical areas: New Zealand, Australia and International.

31 July 2017	Australia NZ\$'000	New Zealand NZ\$'000	International NZ\$'000	Other NZ\$'000	Total NZ\$'000
Total segment sales	298,013	146,779	3,338	-	448,130
Inter-segment sales	(1,581)	(407)	(794)	-	(2,782)
Sales from external customers	<b>296,432</b>	<b>146,372</b>	<b>2,544</b>	-	<b>445,348</b>
<b>EBITDA</b>	<b>39,317</b>	<b>36,001</b>	<b>(713)</b>	<b>(3,775)</b>	<b>70,830</b>
Depreciation and software amortisation	7,783	6,039	3	1	13,826
<b>EBIT</b>	<b>31,534</b>	<b>29,962</b>	<b>(716)</b>	<b>(3,776)</b>	<b>57,004</b>
Income tax expense	8,792	8,595	(225)	(227)	16,935
<b>Total segment assets</b>	<b>233,082</b>	<b>235,834</b>	<b>849</b>	<b>(30,698)</b>	<b>439,067</b>
Total assets includes:					
Non-current assets	171,273	25,529	1	143,237	340,040
Additions to non-current assets	9,662	3,614	-	-	13,276
<b>Total segment liabilities</b>	<b>150,209</b>	<b>22,097</b>	<b>12,356</b>	<b>(72,695)</b>	<b>111,967</b>
<b>31 July 2016</b>	<b>Australia NZ\$'000</b>	<b>New Zealand NZ\$'000</b>	<b>International NZ\$'000</b>	<b>Other NZ\$'000</b>	<b>Total NZ\$'000</b>
Total segment sales	279,704	142,166	7,813	-	429,683
Inter-segment sales	(1,276)	(484)	(2,330)	-	(4,090)
Sales from external customers	<b>278,428</b>	<b>141,682</b>	<b>5,483</b>	-	<b>425,593</b>
<b>EBITDA</b>	<b>32,868</b>	<b>35,134</b>	<b>(541)</b>	<b>(2,663)</b>	<b>64,798</b>
Depreciation and software amortisation	7,121	6,581	214	1	13,917
<b>EBIT</b>	<b>25,747</b>	<b>28,553</b>	<b>(755)</b>	<b>(2,664)</b>	<b>50,881</b>
Income tax expense	6,254	8,090	-	(540)	13,804
<b>Total segment assets</b>	<b>235,781</b>	<b>221,919</b>	<b>1,657</b>	<b>(10,307)</b>	<b>449,050</b>
Total assets includes:					
Non-current assets	170,034	28,416	5	143,237	341,692
Additions to non-current assets	15,545	7,650	1	-	23,196
<b>Total segment liabilities</b>	<b>148,044</b>	<b>30,461</b>	<b>13,460</b>	<b>(54,598)</b>	<b>137,367</b>

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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 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 outdoor clothing 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 an arms-length basis. The default basis of allocation is % of revenue with other bases being used where appropriate.

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

### 2.2 Profit before tax

#### Accounting policies

##### Revenue recognition

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

##### (i) Sale of goods

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

#### Operating expenses

##### Employee entitlements

	2017	2016
	NZ\$'000	NZ\$'000
Wages, salaries and other short term benefits	82,935	82,476
Employee share based remuneration	1,139	692

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

	2017	2016
Australia	762	754
New Zealand	506	488
United Kingdom	5	5

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

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

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### *Rental and operating leases*

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

	2017	2016
	NZ\$'000	NZ\$'000
Rental and operating lease expenses	62,205	58,252

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

	2017	2016
	NZ\$'000	NZ\$'000
Due within 1 year	55,089	52,120
Due within 1-2 years	46,827	40,905
Due within 2-5 years	81,088	70,970
Due after 5 years	41,192	32,112
	224,196	196,107

Some of the existing lease agreements have right of renewal options for varying terms. The Group leases various properties under non-cancellable lease agreements. These leases are generally between 1 - 10 years.

### 2.3 Taxation

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

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

#### **Accounting policies**

##### *Current and deferred income tax*

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

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

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

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

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

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

### Goods and Services Tax (GST)

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

### Taxation – Statement of comprehensive income

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

	2017 NZ\$'000	2016 NZ\$'000
Current income tax charge	16,829	14,996
Deferred income tax charge / (credit)	106	(1,192)
Income tax charge reported in statement of comprehensive income	16,935	13,804

In order to understand how, in the statement of comprehensive income, a tax charge of \$16,934,513 (2016: \$13,804,426) arises on profit before income tax of \$54,973,991 (2016: \$47,324,681), the taxation charge that would arise at the standard rate of New Zealand corporate tax is reconciled to the actual tax charge as follows:

	2017 NZ\$'000	2016 NZ\$'000
Profit before income tax	54,974	47,325
Income tax calculated at 28%	15,393	13,251
Adjustments to taxation:		
Adjustments due to different rate in different jurisdictions	578	550
Non-taxable income	(16)	(25)
Expenses not deductible for tax purposes	1,064	1,492
Tax expense transferred to foreign currency translation reserve	(164)	(1,462)
Adjustments in respect of prior years	80	(2)
Income tax charge reported in statement of comprehensive income	16,935	13,804

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.



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

	2017 NZ\$'000	2016 NZ\$'000
Movement in cash flow hedge reserve before tax	837	(21,230)
Tax impact relating to cash flow hedge reserve	(628)	5,339
Movement in cash flow hedge reserve after tax	209	(15,891)
Foreign currency translation reserve before tax	91	(8,990)
Tax credit / (charge) relating to foreign currency translation reserve	118	2,606
Movement in foreign currency translation reserve after tax	209	(6,384)
Total other comprehensive income before tax	928	(30,220)
Total tax credit / (charge) on other comprehensive income	(510)	7,945
Total other comprehensive income after tax	418	(22,275)
Current tax	164	1,462
Deferred tax	(674)	6,483
Total tax credit / (charge) on other comprehensive income	(510)	7,945

### Unrecognised tax losses

The Group has estimated tax losses to carry forward from Kathmandu (U.K.) Limited of £11,177,874 (NZ\$19,854,128) (2016: £11,163,169 (NZ\$24,427,066)) which can be carried forward to be offset against future profits generated within the UK. No benefit has been recognised in respect to these losses.

### Imputation credits

	2017 NZ\$'000	2016 NZ\$'000
Imputation credits available for use in subsequent reporting periods based on a tax rate of 28%	3,602	4,934

The above amounts represent the balance of the imputation account as at the end of July 2017, 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 2017 is A\$4,501,155 (2016: A\$4,093,795).

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### Taxation – Balance sheet

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

	<b>Tax depreciation</b>	<b>Employee obligations</b>	<b>Brand</b>	<b>Foreign exchange</b>	<b>Other timing differences</b>	<b>Reserves</b>	<b>Total</b>
	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>
As at 31 July 2015 (Note 1.3)	175	1,164	(44,879)	1,583	3,989	(2,954)	(40,922)
Recognised in the statement of comprehensive income	(336)	257	-	(797)	2,068	-	1,192
Recognised in other comprehensive income	-	(51)	1,361	(37)	(129)	5,339	6,483
As at 31 July 2016	(161)	1,370	(43,518)	749	5,928	2,385	(33,247)
Recognised in the statement of comprehensive income	209	349	-	(931)	267	-	(106)
Recognised in other comprehensive income	-	3	(62)	(3)	16	(628)	(674)
As at 31 July 2017	48	1,722	(43,580)	(185)	6,211	1,757	(34,027)

The deferred tax balance relates to:

- Property, plant and equipment temporary differences arising on differences in accounting and tax depreciation rates
- Employee benefits accruals
- Kathmandu brand (refer to Note 1.3)
- Unrealised foreign exchange on intercompany loan (Kathmandu Pty Ltd)
- Realised gain/loss on foreign exchange contracts not yet charged in the statement of comprehensive income
- Inventory provisioning
- Temporary differences arising from landlord contributions and rent free periods
- Temporary differences on the unrealised gain/loss in hedge reserve
- 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 \$38,039,478 (2016: \$33,520,955) by the weighted average number of ordinary shares in issue during the year of 201,488,773 (2016: 201,484,583).

Diluted EPS reflects any commitments the Group has to issue shares in the future that would decrease EPS. In 2017, these are in the form of share options / performance rights. To calculate the impact it is assumed that all share options are exercised / performance rights taken, and therefore, adjusting the weighted average number of shares.

	<b>2017</b>	<b>2016</b>
	<b>'000</b>	<b>'000</b>
Weighted average number of shares in issue	201,489	201,484
Adjustment for:		
- Share options / performance rights	1,835	955
	<u>203,324</u>	<u>202,439</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 and trade and other payables.

### 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 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:

	2017 NZ\$'000	2016 NZ\$'000
Trading stock	76,678	81,922
Goods in transit	12,528	13,514
	<u>89,206</u>	<u>95,436</u>

Inventory has been reviewed for obsolescence and a provision of \$337,970 (2016: \$396,259) has been made.

#### 3.1.2 Cash and cash equivalents

	2017 NZ\$'000	2016 NZ\$'000
Cash on hand	172	171
Cash at bank	3,352	6,707
Short term deposits	13	13
	<u>3,537</u>	<u>6,891</u>

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

NZD	996	2,085
AUD	2,096	3,239
GBP	205	644
USD	163	921
EUR	77	2
	<u>3,537</u>	<u>6,891</u>

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### 3.1.3 Trade and other receivables

#### Accounting policies

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

	2017 NZ\$'000	2016 NZ\$'000
Trade receivables	240	133
Other assets and prepayments	6,044	4,898
	<u>6,284</u>	<u>5,031</u>

Other assets include balances in relation to landlord incentives and takeover bid costs recoverable from Briscoe Group Limited.

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

NZD	3,176	3,335
AUD	2,933	1,608
GBP	175	88
	<u>6,284</u>	<u>5,031</u>

### 3.1.4 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.

	2017 NZ\$'000	2016 NZ\$'000
Trade payables	14,402	12,533
Employee entitlements	10,315	9,793
Sundry creditors and accruals	31,401	27,618
Provisions	617	1,140
	<u>56,735</u>	<u>51,084</u>

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

NZD	11,129	11,292
AUD	38,968	35,602
GBP	624	903
EUR	5	41
USD	6,009	3,246
	<u>56,735</u>	<u>51,084</u>

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

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### 3.1.5 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	Aging analysis	Credit is generally only given to government or local council backed organisations

The nature of the customer base is such that there is no individual customer concentration of credit risk.

#### Exposure to credit risk

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

	2017 NZ\$'000	2016 NZ\$'000
Cash and cash equivalents	3,537	6,891
Trade receivables	240	133
Sundry debtors	3,098	2,317
	<u>6,875</u>	<u>9,341</u>

As at balance date the carrying amount is also considered to approximate fair value for each of the financial instruments. There are no past due or 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:

	2017 NZ\$'000	2016 NZ\$'000
<i>Cash and cash equivalents:</i>		
Standard & Poors - AA-	3,272	6,267
Standard & Poors - BBB+	265	624
Total cash and cash equivalents	<u>3,537</u>	<u>6,891</u>

### 3.2 Property, plant and equipment

#### ■ 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.

#### Accounting policies

##### 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.

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

### Impairment of assets

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Property, plant and equipment can be analysed as follows:

	Leasehold improvement \$'000	Office, plant & equipment \$'000	Furniture & fittings \$'000	Computer equipment \$'000	Total \$'000
<b>Year ended 31 July 2016</b>					
Opening net book value	32,423	2,065	17,633	1,972	54,093
Additions	15,417	114	4,388	810	20,729
Disposals	(270)	(16)	(158)	(8)	(452)
Depreciation charge	(5,354)	(358)	(3,780)	(527)	(10,019)
Asset impairment	(1,094)	-	-	-	(1,094)
Exchange differences	(1,009)	(30)	(587)	(22)	(1,648)
Closing net book value	40,113	1,775	17,496	2,225	61,609
<b>As at 31 July 2016</b>					
Cost	70,423	5,391	32,834	8,316	116,964
Accumulated depreciation	(30,310)	(3,616)	(15,338)	(6,091)	(55,355)
Closing net book value	40,113	1,775	17,496	2,225	61,609
<b>Year ended 31 July 2017</b>					
Opening net book value	40,113	1,775	17,496	2,225	61,609
Additions	7,139	47	3,700	533	11,419
Disposals	(962)	(12)	(486)	(6)	(1,466)
Depreciation charge	(6,350)	(278)	(3,347)	(655)	(10,630)
Asset impairment	-	-	-	-	-
Exchange differences	63	1	29	1	94
Closing net book value	40,003	1,533	17,392	2,098	61,026
<b>As at 31 July 2017</b>					
Cost	73,794	5,418	34,385	8,580	122,177
Accumulated depreciation	(33,791)	(3,885)	(16,993)	(6,482)	(61,151)
Closing net book value	40,003	1,533	17,392	2,098	61,026

In the previous year an impairment loss of \$1,093,945 was recognised for leasehold improvements in relation to the closure of the United Kingdom store network.

## Depreciation

	2017	2016
	NZ\$'000	NZ\$'000
Leasehold improvements	6,350	5,354
Office, plant and equipment	278	358
Furniture and fittings	3,347	3,780
Computer equipment	655	527
Total depreciation	10,630	10,019

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

## Sale of property, plant and equipment

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

	2017	2016
	NZ\$'000	NZ\$'000
Loss/(gain) on sale of property, plant and equipment	1,465	466

## Capital commitments

Capital commitments contracted for at balance date include property, plant and equipment of \$2,093,450 (2016: \$2,881,771).

## 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, licenses, 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 and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

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

### Brand

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



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### 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 to sell and value in use.

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

### Intangible assets

	<b>Goodwill</b>	<b>Brand</b>	<b>Software</b>	<b>Total</b>
	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>	<b>NZ\$'000</b>
<b>Year ended 31 July 2016</b>				
Opening net book value (Note 1.3)	122,835	152,995	11,632	287,462
Additions	-	-	2,467	2,467
Disposals	-	-	(14)	(14)
Amortisation	-	-	(3,898)	(3,898)
Exchange differences	(1,361)	(4,538)	(35)	(5,934)
Closing net book value	121,474	148,457	10,152	280,083
<b>As at 31 July 2016</b>				
Cost	122,745	148,457	24,709	295,911
Accumulated amortisation/impairment	(1,271)	-	(14,557)	(15,828)
Closing net book value	121,474	148,457	10,152	280,083
<b>Year ended 31 July 2017</b>				
Opening net book value	121,474	148,457	10,152	280,083
Additions	-	-	1,857	1,857
Disposals	-	-	-	-
Amortisation	-	-	(3,196)	(3,196)
Exchange differences	62	207	1	270
Closing net book value	121,536	148,664	8,814	279,014
<b>As at 31 July 2017</b>				
Cost	122,807	148,664	26,573	298,044
Accumulated amortisation/impairment	(1,271)	-	(17,759)	(19,030)
Closing net book value	121,536	148,664	8,814	279,014

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### Impairment tests for goodwill and brand

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

Group	Goodwill		Brand	
	2017	2016	2017	2016
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
New Zealand	45,484	45,484	51,000	51,000
Australia	76,052	75,990	97,664	97,457
	121,536	121,474	148,664	148,457

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

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

	2017	2016
Terminal growth rate	1.0%	1.0%
New Zealand CGU pre-tax discount rate	12.5%	12.8%
Australia CGU pre-tax discount rate	12.1%	13.0%

The terminal growth rate assumption is based on a conservative estimate considering the current inflationary environment. Pre-tax discount rates are calculated based on the current 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 (2016: nil). The Board believes that any reasonably possible change in the key assumptions used in the calculations would not cause the carrying amount to exceed its recoverable amount.

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

### Capital commitments

Capital commitments contracted for at balance date include intangible assets of \$850,000 (2016: \$1,410,000).

## Section 4: Capital Structure and Financing Costs

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

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

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

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

### 4.1 Interest bearing liabilities

#### Accounting policies

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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

	2017 NZ\$'000	2016 NZ\$'000
Current portion	-	-
Non-current portion	10,431	43,691
Total term loans	10,431	43,691

The Group has a multi option facility agreement with Commonwealth Bank of Australia and ASB Bank Limited, repayable in full on 30 June 2019, and a facility agreement with Bank of New Zealand and National Bank of Australia, repayable in full on 23 March 2018.

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 2017 financial year (2016: 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 2017.

The current interest rates, prior to hedging, on the term loans ranged between 2.24% - 2.52% (2016: 2.56% - 3.13%).

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	2017 NZ\$'000	2016 NZ\$'000
The principal of interest bearing liabilities is:		
Payable within 1 year	-	-
Payable 1 to 2 years	10,431	43,691
Payable 2 to 3 years	-	-
Payable 3 to 4 years	-	-
	10,431	43,691

### 4.1.1 Finance costs

	2017 NZ\$'000	2016 NZ\$'000
Interest income	(28)	(26)
Interest expense	1,887	2,665
Other finance costs	360	344
Net exchange loss/(gain) on foreign currency borrowings	(189)	573
	2,030	3,556

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 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):

	2017 NZ\$'000	2016 NZ\$'000
Total secured loans	10,431	43,691
less Principal covered by interest rate swaps	(37,724)	(47,017)
Net Principal subject to floating interest rates <sup>1</sup>	(27,293)	(3,326)

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

Interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. The cash flow hedge (gain)/loss on interest rate swaps at balance date was \$330,041 (2016: \$697,687).

### 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% (2016: 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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	Carrying amount \$'000	-1%		+1%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>31 July 2017</b>					
Derivative financial instruments (asset) / liability	7,299	(377)	497	377	(479)
<b>Financial assets</b>					
Cash	3,537	(25)	-	25	-
		(25)	-	25	-
<b>Financial liabilities</b>					
Borrowings	10,431	104	-	(104)	-
		104	-	(104)	-
<b>Total increase / (decrease)</b>		<b>(298)</b>	<b>497</b>	<b>298</b>	<b>(479)</b>

	Carrying amount \$'000	-1%		+1%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>31 July 2016</b>					
Derivative financial instruments (asset) / liability	8,133	(470)	777	470	(750)
<b>Financial assets</b>					
Cash	6,891	(50)	-	50	-
		(50)	-	50	-
<b>Financial liabilities</b>					
Borrowings	43,691	437	-	(437)	-
		437	-	(437)	-
<b>Total increase / (decrease)</b>		<b>(83)</b>	<b>777</b>	<b>83</b>	<b>(750)</b>

### 4.1.3 Liquidity Risk

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

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

The Group has borrowing facilities of \$116,772,823 / \$110,000,000 AUD (2016: \$116,525,424 / \$110,000,000 AUD) and operates well within this facility. This includes short term bank overdraft requirements, and at balance date no bank accounts were in overdraft.

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

	<b>Less than 1 year NZ\$'000</b>	<b>Between 1 and 2 years NZ\$'000</b>	<b>Between 2 and 5 years NZ\$'000</b>	<b>Over 5 years NZ\$'000</b>
<i>Group 2017</i>				
Trade and other payables	56,735	-	-	-
Borrowings	242	10,653	-	-
	56,977	10,653	-	-
<i>Group 2016</i>				
Trade and other payables	51,084	-	-	-
Borrowings	1,222	44,477	-	-
	52,306	44,477	-	-

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

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. They are expected to occur and affect the profit or loss at various dates between balance date and the following five years.

	<b>Less than 1 year NZ\$'000</b>	<b>Between 1 and 2 years NZ\$'000</b>	<b>Between 2 and 5 years NZ\$'000</b>
<i>At 31 July 2017</i>			
Forward foreign exchange contracts			
- Inflow	123,172	-	-
- Outflow	(130,141)	-	-
Net Inflow / (Outflow)	(6,969)	-	-
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	(248)	(99)	(24)
<i>At 31 July 2016</i>			
Forward foreign exchange contracts			
- Inflow	114,330	-	-
- Outflow	(121,765)	-	-
Net Inflow / (Outflow)	(7,435)	-	-
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	(215)	(124)	(44)

## 4.2 Derivative financial instruments

### ■ *Keeping it simple ...*

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

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

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

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

### **Accounting policies**

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

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

### **Cash flow hedge**

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

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

### **Foreign currency translation**

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

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### Derivative financial instruments

	2017	2016
	NZ\$'000	NZ\$'000
<b>Foreign exchange contracts</b>		
Current asset	-	-
Current liability	(6,969)	(7,435)
Net foreign change contracts – cash flow hedge (asset / (liability))	<u>(6,969)</u>	<u>(7,435)</u>
<b>Interest rate swaps</b>		
Non-current asset	-	-
Current liability	(65)	(94)
Non-current liability	(265)	(604)
Net interest rate swaps – cash flow hedge (asset / (liability))	<u>(330)</u>	<u>(698)</u>
<b>Total derivative financial instruments</b>	<b><u>(7,299)</u></b>	<b><u>(8,133)</u></b>

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

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

Interest rate swaps are to exchange a floating rate of interest for a fixed rate of interest. The objective of the transaction is to hedge the core floating rate borrowings of the business to minimise the impact of interest rate volatility within acceptable levels of risk thereby limiting the volatility on the Group's financial results. The notional amount of interest rate swaps at balance date was \$37,723,992 (2016: \$47,016,949). The fixed interest rates range between 2.13% and 3.52% (2016: 2.13% and 4.13%). 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\$92,450,000, NZ\$130,140,594 (2016: US\$81,700,000, NZ\$121,765,202).

No material hedge ineffectiveness for interest rate swaps or foreign exchange contracts exists as at balance date (2016: 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 and the United Kingdom 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% (2016: -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% (2016: -10% / +10%) is reasonable given the exchange rate volatility observed on a historic basis for the preceding five year period and market expectation for potential future movements.

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

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

	Carrying amount \$'000	-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>31 July 2016</b>					
Derivative financial instruments (asset) / liability	8,133	-	(12,704)	-	10,394
<b>Financial assets</b>					
Cash	6,891	384	-	(315)	-
Trade receivables and sundry debtors	2,450	(30)	-	25	-
		354	-	(290)	-
<b>Financial liabilities</b>					
Trade payables	51,084	(3,183)	-	2,605	-
Borrowings	43,691	-	(2,415)	-	1,976
		(3,183)	(2,415)	2,605	1,976
<b>Total increase / (decrease)</b>		<b>(2,829)</b>	<b>(15,119)</b>	<b>2,315</b>	<b>12,370</b>

## 4.3 Equity

### Keeping it simple ...

This section explains material movements recorded in shareholders' equity that are not explained elsewhere in the financial statements. The movements in equity and the balance at 31 July 2017 are presented in the statement of changes in equity.

### Accounting policies

#### Share capital

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

#### Dividends

Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

#### 4.3.1 Contributed equity - ordinary shares

	2017 NZ\$'000	2016 NZ\$'000
Ordinary shares fully paid (\$)	200,209	200,191
Balance at beginning of year	200,191	200,191
Issue of shares under Executive and Senior Management Long Term Incentive Plan	18	-
Balance at end of year	200,209	200,191

#### Number of issued shares

	2017 '000	2016 '000
Ordinary shares issued at beginning of the year	201,484	201,484
Shares issued under Executive and Senior Management Long Term Incentive Plan	13	-
Ordinary shares issued at end of the year	201,497	201,484

As at 31 July 2017 there were 201,497,120 ordinary issued shares in Kathmandu Holdings Limited and these are classified as equity. 12,537 (2016: nil) were issued under the "Executive and Senior Management Long Term Incentive Plan 24 November 2010" and no shares (2016: nil) were issued under the "Executive Share Option Plan 16 October 2009" 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 5.4 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 and loss when the associated hedged transaction affects profit and loss.

##### Foreign currency translation reserve

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

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### Share based payments reserve

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

#### Reserves

		2017 NZ\$'000	2016 NZ\$'000
<b>(i) Cash flow hedging reserve</b>			
Opening balance		(5,531)	10,360
Revaluation - gross		8,142	(4,470)
Deferred taxation on revaluation	2.3	(628)	5,339
Transfer to hedged asset		(7,171)	(16,782)
Transfer to net profit - gross		(134)	22
Closing balance		<u>(5,322)</u>	<u>(5,531)</u>
<b>(ii) Foreign currency translation reserve</b>			
Opening balance		(19,702)	(13,318)
Currency translation differences – Gross		91	(8,990)
Currency translation differences – Taxation	2.3	118	2,606
Closing balance		<u>(19,493)</u>	<u>(19,702)</u>
<b>(iii) Share based payments reserve</b>			
Opening balance		692	24
Current year amortisation		1,139	692
Transfer to Share Capital on vesting of shares to Employees		(18)	-
Share Options / Performance Rights lapsed		-	(24)
Closing balance		<u>1,813</u>	<u>692</u>
<b>Total Reserves</b>		<u>(23,002)</u>	<u>(24,541)</u>

### 4.3.3 Dividends

	2017 NZ\$'000	2016 NZ\$'000
Prior year final dividend paid	16,119	10,075
Current year interim dividend paid	8,060	6,044
Dividends paid (\$0.12 per share (2016: \$0.08))	<u>24,179</u>	<u>16,119</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: Other Notes

### 5.1 Related parties

Subsidiaries	Equity holding	
	2017	2016
Milford Group Holdings Limited	100%	100%
Kathmandu Limited	100%	100%
Kathmandu Pty Limited	100%	100%
Kathmandu (U.K.) Limited	100%	100%

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

The principal activities of the subsidiaries are:

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

#### 5.1.1 Related party disclosures

##### Parent and Ultimate Controlling Party

Kathmandu Holdings Limited is the immediate parent, ultimate parent and controlling party.

During the year, legal fees of \$666,413 (2016: \$223,681) were paid to Chapman Tripp for services provided to the Group (primarily related to takeover defence activity and property leases). John Holland is a Director of Kathmandu Holdings Limited, and during the period was a Consultant of Chapman Tripp. John Holland ceased to be a consultant on 30 November 2016. As at 31 July 2017, the Group owed outstanding legal fees of \$126,591 (2016: \$2,652).

During the year, operating lease costs of \$223,258 (2016: \$240,478) were paid to Chalmers Properties Limited, a subsidiary of Port Otago Limited. John Harvey is a Director of both of these companies.

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

##### Key Management Personnel

	2017	2016
	NZ\$'000	NZ\$'000
Salaries	2,882	3,549
Other short-term employee benefits	987	1,327
Employee performance rights	675	218
	4,544	5,094

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Key management personnel include the following employees:

Executive Directors:

- Chief Executive Officer

Other Key Management Personnel:

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

Remuneration Detail – refer to section 5.3.

### 5.2 Fair values

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

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

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

#### **Term liabilities**

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

#### **Foreign exchange contracts and interest rate swaps**

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

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

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

#### **Guarantees and overdraft facilities**

The fair value of these instruments is estimated on the basis that management do not expect settlement at face value to arise. The carrying value and fair value of these instruments are approximately nil. All guarantees are payable on demand.

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## 5.3 Remuneration Detail

2017	Short-Term Benefits			Post-employment benefits	Share based payments			
	Cash Salary and fees	Cash bonus	Non-Monetary benefits	Super-annuation	Performance Rights <sup>1</sup>	Equity related	Total	Performance related
Name	\$	\$	\$	\$	\$	%	\$	%
<b>Non-Executive Directors</b>								
David Kirk	236,428	-	-	-	-	0.0%	236,428	0.0%
John Harvey	123,687	-	-	-	-	0.0%	123,687	0.0%
John Holland	123,687	-	-	-	-	0.0%	123,687	0.0%
Sandra McPhee	123,687	-	-	-	-	0.0%	123,687	0.0%
Christine Cross	123,687	-	-	-	-	0.0%	123,687	0.0%
	<b>731,176</b>	-	-	-	-	<b>0.0%</b>	<b>731,176</b>	<b>0.0%</b>
<b>Executive Directors</b>								
Xavier Simonet	821,965	446,891	-	21,170	203,866	13.6%	1,493,892	29.9%
	<b>821,965</b>	<b>446,891</b>	-	<b>21,170</b>	<b>203,866</b>	<b>13.6%</b>	<b>1,493,892</b>	<b>29.9%</b>
<b>Other Key Management Personnel</b>								
Reuben Casey	366,651	116,033	3,123	11,000	121,992	19.7%	618,799	18.8%
Other Management	1,589,914	411,520	9,031	71,879	349,281	14.4%	2,431,625	16.9%
<b>Total</b>	<b>3,509,706</b>	<b>974,444</b>	<b>12,154</b>	<b>104,049</b>	<b>675,139</b>	<b>12.8%</b>	<b>5,275,492</b>	<b>18.5%</b>

1. No performance rights were vested and issued to key management personnel during 2017, this represents the accounting expense of amortising the value of performance rights from grant date to vesting date (refer to note 5.4).

2016	Short-Term Benefits			Post-employment benefits	Share based payments			
	Cash Salary and fees	Cash bonus	Non-Monetary benefits	Super-annuation	Performance Rights <sup>1</sup>	Equity related	Total	Performance related
Name	\$	\$	\$	\$	\$	%	\$	%
<b>Non-Executive Directors</b>								
David Kirk	241,553	-	-	-	-	0.0%	241,553	0.0%
John Harvey	126,368	-	-	-	-	0.0%	126,368	0.0%
John Holland	126,368	-	-	-	-	0.0%	126,368	0.0%
Sandra McPhee	126,368	-	-	-	-	0.0%	126,368	0.0%
Christine Cross	126,368	-	-	-	-	0.0%	126,368	0.0%
	<b>747,025</b>	-	-	-	-	<b>0.0%</b>	<b>747,025</b>	<b>0.0%</b>
<b>Executive Directors</b>								
Xavier Simonet <sup>2</sup>	814,531	556,745	-	20,707	91,679	6.2%	1,483,662	37.5%
Mark Todd <sup>3</sup>	345,668	-	1,867	10,370	-	0.0%	357,905	0.0%
	<b>1,160,199</b>	<b>556,745</b>	<b>1,867</b>	<b>31,077</b>	<b>91,679</b>	<b>5.0%</b>	<b>1,841,567</b>	<b>30.2%</b>
<b>Other Key Management Personnel</b>								
Reuben Casey	355,000	99,400	2,911	10,650	32,816	6.6%	500,777	19.8%
Other Management	1,914,591	658,496	8,421	78,063	93,825	3.4%	2,753,396	23.9%
<b>Total</b>	<b>4,176,815</b>	<b>1,314,641</b>	<b>13,199</b>	<b>119,790</b>	<b>218,320</b>	<b>3.7%</b>	<b>5,842,765</b>	<b>22.5%</b>

1. No performance rights were vested and issued to key management personnel during 2017, this represents the accounting expense of amortising the value of performance rights from grant date to vesting date (refer to note 5.4).

2. Cash bonus includes payments related to sign on bonus and short term incentives; 3. Resigned as Executive Director on 24 August 2015.

## 5.4 Employee Share Based Remuneration

### Accounting policy

#### (ii) Equity settled long term incentive plan

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

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

On 20 November 2013, shareholders approved at the Annual General Meeting the continuation of an Employee Long Term Incentive Plan (LTI) (previously established 24 November 2010) to grant performance rights to Executive Directors, Key Management Personnel and other Senior Management. Performance rights will vest subject to the satisfaction of performance conditions which will be different for Executive Directors as compared with the Key Management Personnel and Senior Management.

#### Executive Directors

Performance rights granted to Executive Directors 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
19 Dec 2016	-	293,078	-	-	293,078
16 Dec 2015	407,463	-	-	-	407,463
	407,463	293,078	-	-	700,541

The performance rights granted on 19 December 2015 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
19 Dec 2016	1	50%	50%
16 Dec 2015	1	50%	50%

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

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

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The TSR performance is calculated for the following performance periods:

Tranche	2017	2016
Tranche 1	36 months to 1 December 2019	36 months to 1 December 2018

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:

	2017	2016
Fair value of TSR rights	\$167,054	\$189,470
Current price at grant date	\$1.96	\$1.44
Risk free interest rate	2.40%	2.76%
Expected life (years)	3	3
Expected share volatility	44.3%	45.7%

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 2016. The applicable performance periods are:

Tranche	2017 Performance Period	2016 Performance Period
Tranche 1	FY19 EPS relative to FY16 EPS	FY18 EPS relative to FY15 EPS

The percentage of the 2017 EPS growth related rights scales according to the compound average annual EPS growth achieved as follows:

EPS Growth	2017 % Rights Vesting	EPS Growth	2016 % Rights Vesting
< 10%	0%	< 17.5%	0%
>=10%, < 11%	50%	>=17.5%, < 18.5%	50%
>=11%, < 12%	60%	>=18.5%, < 19.5%	60%
>=12%, < 13%	70%	>=19.5%, < 20.5%	70%
>=13%, < 14%	80%	>=20.5%, < 21.5%	80%
>=14%, < 15%	90%	>=21.5%, < 22.5%	90%
>=15%	100%	>=22.5%	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.

### Key Management Personnel and Senior Management

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

Grant Date	Balance at start of year Number	Granted during the year Number	Vested during the year Number	Lapsed during the year Number	Balance at the end of year
07 Dec 2016	-	648,954	-	(138,632)	510,322
18 Dec 2015	703,183	-	(12,537)	(20,977)	669,669 <sup>1</sup>

<sup>1</sup> Remaining performance rights on vesting date 31 July 2017, which were subsequently issued on 22 August 2017.

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.



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The performance period and vesting dates are summarised below:

	2017	2016
Grant Date	7 Dec 2016	18 Dec 2015
Performance period (year ending)	31 Jul 2017	31 Jul 2016
Vesting Date – Key Management Personnel and Senior Management	31 Jul 2018	31 Jul 2017

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\$1.71 per right (2016: NZ\$1.45)

The non-market performance hurdles set for the year ending 31 July 2017 were met and accordingly an expense has been recognised in the Statement of Comprehensive Income.

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

	2017 NZ\$'000	2016 NZ\$'000
Executive Director	204	92
Key Management Personnel and Senior Management	935	600
	<u>1,139</u>	<u>692</u>

### 5.5 Contingent liabilities

#### Keeping it simple ...

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty may exist regarding the outcome of future events.

	2017 NZ\$'000	2016 NZ\$'000
Liabilities outstanding under letters of credit	-	159

### 5.6 Contingent assets

There are no contingent assets in 2017 (2016: nil).

### 5.7 Events occurring after the balance date

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

### 5.8 Supplementary Information

#### Directors fees

	2017 NZ\$'000	2016 NZ\$'000
Directors' fees	731	747

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

- David Kirk (Chairman)
- Sandra McPhee
- John Harvey
- John Holland
- Christine Cross

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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:

	2017 NZ\$'000	2016 NZ\$'000
<b>Audit services - PricewaterhouseCoopers</b>		
Statutory audit	133	130
Half year review	32	30
Other assurance services*	19	37
Total remuneration for audit services	184	197

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

### 5.9 New Accounting Standards

#### New standards first applied in the year

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

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

New Accounting Standard	Effective Date Applicable to the Group	Summary of Changes	Group Impact
NZ IFRS 9 Financial Instruments	1 August 2018	Addresses the classification, measurement and de-recognition of financial assets and financial liabilities and new rules for hedge accounting.	It is not expected that the adoption of NZ IFRS 9 will have a significant impact on the Group's financial statements. In the coming year we will do a full assessment to quantify any impact.
NZ IFRS 15 Revenue from Contracts with Customers	1 August 2018	Establishes the reporting principles relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.	It is not expected that the adoption of NZ IFRS 15 will have a significant impact on the Group's financial statements. In the coming year we will do a full assessment to quantify any impact.
NZ IFRS 16 Leases	1 August 2019	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.	This standard will materially impact the Group's 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. Rental expense currently recognised in the statement of comprehensive income will be replaced with depreciation and interest. Initial assessment activities have been undertaken on the Group's current leases, however the impact of the standard will depend on the leases in place on transition. Detailed review of lease contracts will continue over the next year to determine the full impact on adoption of NZ IFRS 16.



## *Independent auditor's report*

To the shareholders of Kathmandu Holdings Limited

The consolidated financial statements comprise:

- the consolidated balance sheet as at 31 July 2017;
- 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 and the reconciliation of net profit after taxation with cash inflow from operating activities for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### *Our opinion*

In our opinion, the consolidated financial statements of Kathmandu Holdings Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 July 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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### *Basis for opinion*

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

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

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

Our firm carries out other services as auditors for the Group in the areas of a share register audit and store turnover certificates. The provision of these other services has not impaired our independence as auditor of the Group.



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## Our audit approach

### Overview

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

Overall group materiality: \$2.75 million, which represents 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 \$275,000.

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We have determined the following areas as key audit matters:

- Carrying value of goodwill and brand intangible assets; 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 industry in which the Group operates.

The accounting function for the Group is maintained in New Zealand, providing consistent accounting systems and processes across the different economic jurisdictions the Group operates in. Our audit was conducted by a New Zealand based team and the scope of our testing included the transactions of the entire Group.



### 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>Carrying value of goodwill and brand intangible assets</i></p> <p>As disclosed in note 3.3, the Group has \$279 million of intangible assets, including \$121.5 million of Goodwill and \$148.7 million of indefinite life Brands at 31 July 2017. These assets were recognised on acquisition of the business in 2006. No impairment charge has been recorded by management against these balances in the current or previous financial years.</p> <p>Our audit focused on the intangible assets due to the judgements and estimates that are involved in determining whether the “fair value” exceeds the carrying value. Management assess whether there are any impairment indicators each year for each of the business units. For the purposes of assessing whether there are indicators of impairment of the Goodwill and Brands, management have determined that there are two business units being the New Zealand and the Australian operations.</p> <p>Management prepared a valuation of the New Zealand and Australian businesses using a “value in use” approach. This involves estimating future cash flows of the respective businesses which include assumptions and estimates, including terminal growth rates and the weighted average cost of capital used as the discount rates.</p> <p>There is risk that if these cash flows are not met or there are changes in the underlying assumptions, the assets may be impaired.</p>	<p>Our audit procedures included the following:</p> <p>We obtained an understanding of, and assessed management’s processes and controls over, preparing the valuation model used in their impairment reviews in support of the carrying value of Goodwill and Brands. We also assessed the Group’s ability to prepare accurate forecasts by comparing results of historical forecasts against actual performance.</p> <p>We tested the mathematical accuracy of the valuation model and, on a sample basis, tested the accuracy of the inputs.</p> <p>We assessed key estimates and assumptions made by management by performing the following procedures:</p> <ul style="list-style-type: none"><li>• Compared the reasonableness of key assumptions in the cash flow forecasts, in particular revenue growth and profit margins with reference to historical performance;</li><li>• Engaged an auditor’s expert to assess the weighted average cost of capital used as the discount rates in the models against available external data and determined that the rates used by management were within a reasonable range;</li><li>• Obtained and evaluated management’s sensitivity analysis to ascertain the impact of reasonably possible changes and we performed our own independent sensitivity calculations to quantify the downside changes to management’s models required to consider the effect of changes in key assumptions; and</li><li>• Compared the market capitalisation of the Group at balance date to the net assets and confirmed that appropriate headroom existed.</li></ul> <p>We reviewed the disclosures in the financial statements to ensure that they are compliant with the requirements of NZ accounting standards.</p> <p>We had no matters to report arising from the procedures performed.</p>



Key audit matter	How our audit addressed the key audit matter
<p data-bbox="277 483 692 515"><i>Inventory valuation and existence</i></p> <p data-bbox="277 526 766 763">At 31 July 2017, the Group held inventories of \$89.2 million. Inventory valuation and existence was an audit focus area because of the additional risks assessed due to the number of stores/locations that the inventory was held at, and the judgement applied in the valuation of inventory on hand.</p> <p data-bbox="277 784 772 902">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="277 920 767 1039">The Group has sophisticated systems and processes including a barcode inventory management system to accurately record inventory movements.</p> <p data-bbox="277 1057 766 1265">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.</p> <p data-bbox="277 1283 759 1583">Management pay particular attention to inventory management. There are a number of judgements applied in assessing the level of provision for stock obsolescence and inventory shrinkage losses arising. 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="805 483 1334 544">We performed a number of audit procedures over inventory existence and valuation:</p> <ul data-bbox="805 562 1501 1944" style="list-style-type: none"><li data-bbox="805 562 1490 651">• Observed the stocktake process at selected store locations near period end and undertook our own test counts.</li><li data-bbox="805 656 1490 808">• We validated all stores had been counted twice in the year by selecting a sample of locations not visited and inspected the results of the stock counts and confirmed variances were correctly accounted for and approved by head office management;</li><li data-bbox="805 813 1501 1050">• Observed the daily stocktake process at the Christchurch and Melbourne distribution centres near period end and undertook our own test counts. This process is controlled centrally by head office management for consistency. We also validated that the daily counts occurred by selecting a sample of days at each location and inspected the count records throughout the year;</li><li data-bbox="805 1055 1474 1234">• Assessed the stock shrinkage provision by reviewing the level of inventory write downs during the period. We tested the shrinkage rate used to calculate the provision for each store since the last stocktake by comparing it to the actual shrinkage rate in prior periods;</li><li data-bbox="805 1238 1474 1328">• Assessed store inventory counts performed post year end to ensure the actual level of shrinkage was consistent with the year end provisioning;</li><li data-bbox="805 1332 1465 1393">• On a sample basis tested inventory costs to supplier invoices and contracts;</li><li data-bbox="805 1397 1453 1516">• Held discussions with management, including merchandising personnel, to understand and corroborate the assumptions applied in estimating inventory provisions;</li><li data-bbox="805 1520 1490 1610">• On a sample basis, we tested the aging of inventory. For our sample we agreed the purchase date recorded in the inventory aging report to supplier invoices;</li><li data-bbox="805 1615 1501 1823">• We evaluated the assumptions made by management, and particularly the key assumption that current shrinkage levels are consistent with historical levels, in assessing stock obsolescence provisions through an analysis of inventory items by category and age and the level of inventory write downs in these categories during the period; and</li><li data-bbox="805 1827 1490 1944">• We tested that inventory on hand at the end of the period was recorded at the lower of cost and net realisable value by testing a sample of inventory items to the most recent retail price.</li></ul> <p data-bbox="805 1962 1453 2022">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 express any form of assurance conclusion on the other information.

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

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

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

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

### *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.

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

For and on behalf of:

A handwritten signature in blue ink that reads 'Priscilla Cooper'.

Chartered Accountants  
26 September 2017

Christchurch