2016 ANNUAL REPORT

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Kathmandu®

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NOTICE OF ANNUAL GENERAL MEETING

11.00am Friday
18 November 2016
Kathmandu
223 Tuam Street
Christchurch
New Zealand

CHAIRMAN'S REPORT

"PRODUCT NEWNESS AND CHANGES TO PROMOTIONAL ACTIVITY CONTRIBUTED TO IMPROVED GROSS MARGINS WHICH WHEN COMBINED WITH LOWER OPERATING COSTS DELIVERED A STRONG RESULT."

Financial Results

The 2016 financial year was a year where we have delivered a much improved result. Here are the highlights:

- Sales grew 4.0% to $425.6m;
- Gross margin increased to 62.6% from 61.5% in FY2015;
- Earnings before interest and tax increased by 53.3% from NZ$33.2m to NZ$50.9m;
- Earnings per share increased to 16.6 cents per share from 10.1c in FY2015; and
- Total dividend payout increased by 38% to 11 cents per share.

Product newness and changes to promotional activity contributed to improved gross margins which when combined with lower operating costs delivered a strong result. Operating expenses reduced by NZ$3.2m year on year as a result of careful management of retail labour and reduced promotional spending. Efficiencies were also delivered through restructuring in our support office carried out at the beginning of the financial year.

Early in the 2016 financial year, a takeover offer by the Briscoe Group was rejected by virtually all Kathmandu shareholders. Shareholders relied upon our published forecasts of expected growth in earnings for the company in FY2016, and we are pleased to have exceeded those forecasts.

Growth Strategies and Investment

Kathmandu's growth strategies can be divided into two streams. Continuous improvement strategies that we are implementing in our core Australia and New Zealand markets, and growth strategies targeted at new markets and channels.

Continuous improvement strategies:

- Promote brand distinctiveness by focusing on products that reinforce our expertise in adventure travel;
- Inspire our customers through personalised digital marketing, social

media engagement, CRM capability, social responsibility, and continual improvement of our customer-centric promotional calendar;

- Optimise our product ranges, merchandising, service and fit-out of our existing store network;
- Grow online sales and deliver a true omni-channel experience for our Australasian customers;
- Further improve our cost efficiency.

New growth strategies:

- Make sales in international markets with a capital-light business model;
- Evaluate further opportunities to offer our products on international market place sites;

Capital investment in new stores, refurbishment of current stores, supporting information technology systems and infrastructure where appropriate will continue to be made. In FY2016, infrastructure investments were on a new support office in Christchurch and a new Australian distribution centre.

Underpinning our brand is a commitment to sustainability. Our new support office in Christchurch, distribution centre in Melbourne and flagship store in Melbourne have all been designed to be five-star Green Star rated buildings. We will continue to work with suppliers to monitor the environmental and social impact of our products as well as focus on sustainable designs. Kathmandu's annual sustainability report details our progress and plans in this area in more detail.

People

Xavier Simonet has now completed his first year as Chief Executive Officer. In this time we have gained a great deal of confidence in his ability, and the financial results show the positive impact he has already made to the business.

Supporting Xavier we have an experienced, energetic, and skilled management team, who are aligned to his strategic vision for the Kathmandu brand.

Dividend

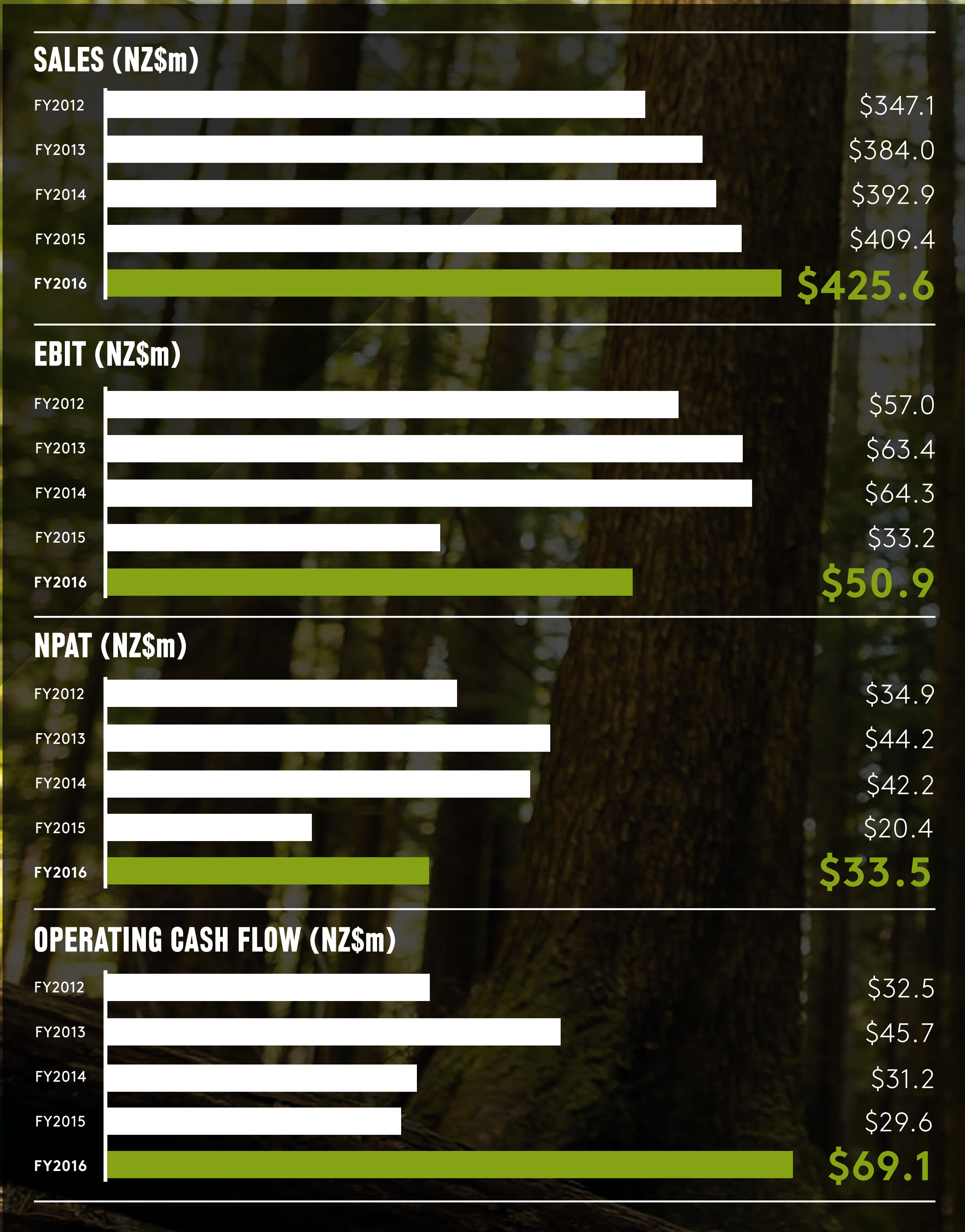
The Directors have declared a final dividend of 8 cents per share, which, with the 3 cents interim dividend, makes a total payout for the year of 11 cents per share, an increase of 3 cents per share compared with last year. The final dividend will be fully imputed for New Zealand shareholders, and fully franked for Australian shareholders. This dividend represents a payout ratio of over 66%.

Finally, I would like to thank my board colleagues for their continuing commitment to make Kathmandu successful.

Thank you for your continued investment in Kathmandu.

David Kirk
Chairman

2016 HIGHLIGHTS



CHIEF EXECUTIVE OFFICER'S REPORT

Key Highlights

- Sales increased by 4.0% to $425.6m;
- Same store sales increased by 1.6% at constant exchange rates;
- Gross margin increased by 110bps across the full year;
- Online sales up 16.5%; 6.9% of Group sales;
- Operating expenses decreased by 260 bps as a percentage of sales;
- Summit Club member numbers grew c.14%, now 1.6 million active members;
- Record low net debt levels and strong operating cash flow generated;
- New purpose built Christchurch support office opened in the CBD; and
- 5 permanent new stores opened in Australasia, 3 stores closed in the UK.

Last year was both a challenging and exciting year for Kathmandu.

A turnaround was required after a year of underperformance and we took decisive action. We challenged our cost structure and unfortunately had to let some of our team members go. A stronger focus was also put on delivering efficiencies and optimising our cost base and resource allocation.

Kathmandu is both a retailer and a brand. As a retailer, our mission is to offer our customers quality products at great value and make the outdoor category accessible to everyone. In FY2016, we started adjusting our promotional model and reviewed our pricing architecture. These actions improved the clarity of our value message to our customers at the same time as they helped the business grow its gross profit margin.

As a brand, the potential to leverage our unique heritage, our values and distinctiveness in adventure travel is immense. In FY2016, we put an enhanced focus on communicating and engaging with our customers, particularly with our Summit Club members, on brand stories and products benefits and features. The decision to sponsor the Coast to Coast race in New Zealand is a great opportunity to inspire around adventure and the outdoors.

More than anything, Kathmandu is about designing and bringing to market great, distinctive, innovative and sustainable quality products. This remains the ultimate mission of our team. We are extremely proud that all our products and solutions are designed in our new Christchurch head office.

Result and Financial Performance

Actions taken during FY2016 to improve operating margins delivered sales growth at increased gross margins, lower operating expenses as a percentage of sales, reduced investment in working capital and strongly positive operating cash flows.

Group sales of $425.6m increased by 4.0% overall, with an increase in same store sales of 1.6% measured at constant exchange rates. By country the change in same store sales was as follows (52 weeks ending 31 July 2016):

- Australia +2.6%
- New Zealand -0.1%
- UK +3.7%.

Gross profit increased by $14.5m (5.8%), as gross margin (62.6%) was 110bps higher than last year. Improved full price sell through combined with a lift in average selling price drove gross margin improvement. By country the change in gross margins were:

- Australia +70bps
- New Zealand +160bps
- UK +90bps

Our foreign currency forward hedging policy continues to be on a rolling 12 month basis. The appreciation of the USD against AUD and NZD negatively impacted gross margins in the second half of FY2016 and will continue to do so in FY2017.

Operating Expenses excluding depreciation, amortisation and financing costs decreased by $3.2m (1.6%). This was a decrease as a percentage of sales from 50.0% to 47.4%. Actions taken following a structural review completed early in FY2016 included reducing support office headcount, lowering promotional spend as a percentage of sales and driving a more efficient retail labour spend. Additionally, savings were made through leveraging investments in core systems, particularly Distribution costs. Rental costs increased as a percentage of sales due to the opening of flagship stores in Melbourne and Adelaide; along with a new support office in Christchurch and a new distribution centre in Melbourne. Operating cost efficiency will continue to be a key area of focus in FY2017, with our aim to further decrease overall expenses as a percentage of sales.

Capital expenditure increased by $3.2m (16%) compared to FY2015. This is mainly due to physical infrastructure investments ($13.1m) made in our partly automated warehousing facility in Melbourne and a new support office (Christchurch). The investment made in "bricks and mortar" retail, (new stores, relocations and refurbishments), reduced by $2.2m (21.6%). Technology investments decreased by $2.6m (55.3%) which reflected the completion of the core systems investment programme. Investments were focussed on further developing our Online platform and implementation of a workforce management system.

Depreciation and amortisation expense remained constant with FY2015, as the substantial amortisation cost arising from the core systems platform continue to flow through. Capital expenditure in FY2017 will be lower than in FY2016 mainly due to the completion of our investment in the new Melbourne distribution centre.

Finance costs reduced as a result of lower average debt levels throughout the year, a decline in effective interest rates, and a full year benefit of the re-negotiation of Group banking facilities completed during FY2015.

Inventory levels decreased by $17.9m (15.8%), and by 14.1% on a per store basis (constant exchange rates). Demand planning software implemented during FY2014 have enabled a reduction in inventory levels and reduced working capital requirements. Clearance stock units continue to be closely managed and are an ongoing focus.

Taxation The effective tax rate reduced to c.29% from c.33%. Transfer pricing agreements with the New Zealand tax authority to correctly apportion the UK operating risks have contributed to the reduction in effective tax rates.

Future Growth Plans

Underpinning future growth is Kathmandu's commitment to design great, innovative, distinctive and sustainable quality products and be customer centric in everything we do.

There are a number of strategies to continue driving profitable growth in FY2017 and beyond. These include:

- Same store sales growth in Australasia;
- Measured store network expansion in Australasia;
- Realising our full online potential;
- Expanding internationally through a capital-light business model; and
- Becoming more cost efficient.

Same store sales growth is a key focus supported by several initiatives. Optimising our pricing and promotional model is a critical ongoing activity. This requires us to provide customers with quality and value through promotions and pricing, focusing on:

- Promotion spend that activates foot traffic and an increased basket size;
- Advertising strategy that uses a mix of channels including making efficient use of social and digital media channels; and
- Refining the structure of sales events, both breadth and depth, to maximise gross profit contribution.

A major enabler to achieving these outcomes is an engaged Summit Club. Kathmandu has 1.6 million Summit Club members who represent c. 70% of Kathmandu's annual sales. Our focus is to build enhanced loyalty and individual engagement with those members, providing an improved value proposition through:

- Targeted marketing spend, providing better, differentiated pricing during promotions compared to non-members;
- Personalised communication, rewards and recognition, facilitated by investments in CRM and digital marketing technology; and
- Refreshing the Summit Club programme to further promote wider engagement.

We will support customer engagement and improve in store sales density through growing the contribution made from traffic-driving products by:

- Enhancing each new-season's range to resonate with customer requirements, strengthening Kathmandu's credentials in 'adventure travel' and positioning as an aspirational brand;

- Improving visual merchandising in store;
- Comprehensive customer service providing tailored advice to match customer needs with the appropriate product;
- Increasing focus on categories and products that drive frequency of visitation; facilitated by our forecasting, planning and real time performance analysis capability; and
- Optimising space allocation in store to those product groups that will maximise gross profit contribution.

Store network expansion will continue in Australia and New Zealand, and our network plan remains to have c.180 sites in total across the two countries. Further roll-out is based on a stringent return on invested capital criteria to deliver long term sustainable growth.

Permanent store numbers totalled 162 at 31 July 2016: Australia 114, New Zealand 47, and UK 1.

Five new permanent stores opened during FY2016, including two flagship stores (Melbourne and Adelaide CBD).

Online Sales remain a critical channel for Kathmandu. We will continue to invest and improve our e-commerce platform and build its online capability by:

- Offering a true omni-channel offering, integrating with in-store sales to provide one range available to all customers wherever they choose to shop;
- Driving site visitation through targeted campaigns, partnering and social media;
- Actively leveraging Summit Club members to drive online sales; and
- Launching country specific online stores and participating in appropriate open marketplace sites.

International expansion remains a key growth strategy for Kathmandu, using our brand equity to expand internationally through a capital-light model.

Kathmandu will tailor its international expansion strategy using the most effective channel for each market – potentially online only, wholesale distribution, licensed or franchised retail stores or a combination of these channels. International expansion will be explored in more depth during FY2017 with profitable channels being pursued.

Cost efficiency will continue to be a focus for Kathmandu to build on the progress made during FY2016 and drive operating margin expansion. Initiatives being undertaken include:

- Workforce productivity, leveraging system investments made in rostering to ensure labour is matched to sales potential;
- Ongoing efficiency through distribution labour costs as a percentage of sales, as new software efficiencies and investments in warehouse automation are realised; and
- Obtain operating leverage in other key overhead expenses including salaries and wages, as we focus on business efficiency and simplicity of processes.

Sustainability

As a Kathmandu core value, sustainability is an integral part of our business strategy. Our on-going objective is to deliver value to our stakeholders and to maintain leadership in this area.

Full details of our progress can be found in our 2016 Sustainability Report, produced in conjunction with our Annual Report and prepared in accordance with the Global Reporting Initiative (GRI).

Our Team

Employee numbers as at 31 July 2016 decreased from 2,097 last year to 1,895 this year, with permanent employees making up c.80% of the total workforce. Kathmandu's team have been particularly resilient in a year of substantial change. There were a number of changes in the makeup of the Executive and senior management groups across the business, and the response of our team in these circumstances was exemplary.

Future Outlook

The success of Kathmandu in FY2017 relies on the ability of our team to drive sales growth in Australasia, our core market. New Zealand is a mature market, where protecting our market share and profitability will be a priority. The focus in Australia will be on improving our market share and penetration. Optimising our store network, and particularly our sales and gross margin densities, will be key.

Based on the strong growth of our online business over the last few years and significant investments in systems and resources, we plan our online sales to continue increasing at a fast pace in the coming year.

While we leverage our scale and assets in Australia and New Zealand, the company will step by step focus more on the international opportunity. We will take a cautious approach to our international expansion, with an emphasis on capital light models and profitable sales.

More than a retail business, Kathmandu is an inspiring brand, with deep roots in Australia and New Zealand. The company will continue to strengthen the distinctiveness of the Kathmandu brand and will improve the level of engagement with its customers, particularly on digital, online and social channels.

Xavier Simonet
Managing Director and
Chief Executive Officer

WITH THE RELEASE OF OUR WINTER 2016 RANGE, WE ACHIEVED 100% TRACEABLE, ETHICALLY SOURCED, RESPONSIBLE DOWN STANDARD (RDS) CERTIFIED DOWN.

THE BOARD

01 DAVID KIRK
CHAIRMAN

Mr Kirk is the Chairman of Trade Me Group Ltd, the co-founder and Managing Partner of Bailador Investment Management, and sits on the Board of Bailador portfolio companies. Mr Kirk's Executive Management career has seen him hold Chief Executive Officer roles at Fairfax Media and PMP Limited and the Regional President (Australasia) for Norske Skog.

02 XAVIER SIMONET
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Joined Kathmandu in July 2015 with over 20 years international experience in building brands and developing successful retail businesses in fashion, apparel, accessories and related products.

Prior roles include CEO of Radley (London), VP & GM International of DB Apparel, 11 years at LVMH (primarily Asia-Pacific) and International Director of Seafolly.

03 JOHN HOLLAND
NON-EXECUTIVE DIRECTOR

Mr Holland is a consultant in the national New Zealand law firm Chapman Tripp, and was a partner for 19 years, specialising in general corporate and commercial law. Mr Holland's securities law experience includes acting on initial public offerings, advising on employee share schemes and in the private equity area.

04 JOHN HARVEY
NON-EXECUTIVE DIRECTOR

Mr Harvey is a professional director with a background in accounting and professional services, including 23 years as a partner of PricewaterhouseCoopers where he held a number of leadership and governance roles. Mr Harvey has extensive experience in financial reporting, governance, information systems and processes, business evaluation, acquisition, merger and takeover reviews.

05 SANDRA McPHEE AM
NON-EXECUTIVE DIRECTOR

Ms McPhee is an experienced executive and non-executive Director in consumer facing sectors including aviation, retail, energy and media. She held a range of senior international executive roles in the aviation industry, most recently with Qantas Airways Limited.

06 CHRISTINE CROSS
NON-EXECUTIVE DIRECTOR

Ms Cross has extensive experience in international retail and consumer goods including 14 years as a Director on the operating board of Tesco Plc.

Ms Cross currently runs a retail advisory consultancy focusing on international best practice in customer led business planning and value chain management.

MANAGEMENT TEAM

XAVIER SIMONET
MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER

REUBEN CASEY
CHIEF FINANCIAL OFFICER
AND COMPANY SECRETARY

PAUL STERN
GENERAL MANAGER, MARKETING,
ONLINE & INTERNATIONAL

BEN RYAN
GENERAL MANAGER,
PRODUCT

REBECCA EDWARDS
GENERAL MANAGER,
HUMAN RESOURCES

STEPHEN DOMANCIE
GENERAL MANAGER,
RETAIL STORES & OPERATIONS

CALEB NICOLSON
GENERAL MANAGER,
SUPPLY CHAIN

JOLANN VAN DYK
CHIEF INFORMATION OFFICER

DIRECTORS' REPORT

YOUR DIRECTORS PRESENT THEIR REPORT AND THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2016.

Directors

The following persons were Directors of Kathmandu Holdings Limited during the financial year.

DAVID KIRK

Was re-appointed as a non-Executive Director, Chairman, Member of the Audit and Risk Committee, Member of the Remuneration and Nomination Committee on 21 November 2014. He continues in these offices at the date of this report.

XAVIER SIMONET

Was appointed as Managing Director and Chief Executive Officer on 29 June 2015 and continues in these offices at the date of this report.

JOHN HARVEY

Was re-appointed as a non-Executive Director, Chair of the Audit and Risk Committee, Member of the Remuneration and Nomination Committee on 21 November 2014. He continues in these offices at the date of this report.

JOHN HOLLAND

Was re-appointed as a non-Executive Director, Member of the Audit and Risk Committee, Member of the Remuneration and Nomination Committee on 20 November 2015, and continues in these offices at the date of this report.

SANDRA MCPHEE

Was re-appointed as a non-Executive Director, Member of the Audit and Risk Committee, Chair of the Remuneration and Nominee Committee on 20 November 2013, and continues in these offices at the date of this report.

CHRISTINE CROSS

Was re-appointed as a non-Executive Director, Member of the Remuneration and Nomination Committee, Member of the Audit and Risk Committee on 20 November 2015, and continues in these offices at the date of this report.

MARK TODD

Was re-appointed as an Executive Director on 21 November 2014 and appointed as Finance Director, Chief Financial Officer on 9 October 2009, and resigned as a Director effective 24 August 2015.

Details of the experience and expertise of the Directors are outlined on page 10 of this annual report.

Retirement of Directors

In accordance with the Company's constitution, Sandra McPhee and David Kirk will retire as Directors at the annual general meeting and being eligible, offer themselves for re-election.

Meeting of Directors

The number of meetings of the Board of Directors and Committees held during the year ended 31 July 2016 and the numbers of meetings attended by each Director were:

	DIRECTOR MEETINGS		AUDIT AND RISK COMMITTEE MEETINGS		REMUNERATION AND NOMINEE COMMITTEE MEETINGS	
Director	A	B	A	B	A	B
David Kirk	8	8	6	6	4	4
Xavier Simonet	8	8	XX	XX	XX	XX
John Harvey	8	8	6	6	4	4
John Holland	8	8	6	6	4	4
Sandra McPhee	8	8	6	6	4	4
Christine Cross	7	8	5	6	3	4
Mark Todd	1	1	XX	XX	XX	XX

A – Number of meetings attended
B – Number of meetings held during the time the Director held office during the year
XX - Not a member of relevant Committee

Review of Operations

The profit of the consolidated entity for the financial year after providing for income tax amounted to $33,521,000 (2015: $20,419,000).

A detailed review of operations is provided on pages 2 to 8 of this annual report.

Significant Changes of Affairs

There has been no material change in the state of affairs of the Company or the Group.

Principal Activities

The Group's principal activity in the course of the financial year was the design, marketing and retailing of clothing and equipment for outdoor, travel and adventure. It operates through wholly owned subsidiaries in New Zealand, Australia and the United Kingdom.

Matters Subsequent to the End of the Financial Year

No matters or circumstances have arisen since the end of the financial year which significantly affect or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Likely Developments and Expected Results of Operations

Likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years are contained on pages 2 to 8 of this annual report.

Environmental Regulation

The consolidated entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory of Australia, or of New Zealand.

Dividends

Since the end of the financial year the Directors have declared the payment of a final ordinary dividend of NZ 8.0 cents per share. Dividends will carry full New Zealand imputation credits and full Australian franking credits. The dividend will be paid on 25 November 2016.

The Company does not currently have a dividend re-investment plan.

Insurance of Officers

The Company has entered into deeds of indemnity, insurance and access with each Director which confirms each person's right of access to certain books and records of the Company for a period of seven years after the Director ceases to hold office. This seven year period can be extended where certain proceedings or investigations commence before the seven years expires. The deed also requires the Company to provide an indemnity for liability incurred as an officer of the Company, to the maximum extent permitted by law.

Indemnification: Pursuant to the Constitution, the Company is required to indemnify all Directors and employees, past and present against all liabilities allowed under law. The Company has entered into an agreement with each Director to indemnify those parties against all liabilities to another person that may arise from their position as Director or other officer of the Company or its controlled entities to the extent permitted by law. The deed stipulates that the Company will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

Insurance: Pursuant to the Constitution, the Company may arrange and maintain Directors' and officers' insurance during each Director's period of office, and for a period of seven years after a Director ceases to hold office. This seven year period can be extended where certain proceedings or investigations commence before the seven years expires.

Remuneration Report

1. SUMMARY

Kathmandu's financial results for FY2016 reflect a much improved performance following a difficult year in FY2015. The results are the outcome of a number of actions taken to reset the business in order to return to sustainable long term profitable growth.

Earnings before interest, tax, depreciation and amortisation (EBITDA) was $64.8m an increase of 37.6%. and net profit after tax was $33.5m, a 64.2% increase over FY2015.

FY2016 remuneration

- Non-Executive Directors fees remained unchanged for the second consecutive year.
- Executive base salary and at risk remuneration mix remained unchanged.
- Short term incentives (cash) were paid to all eligible Executives (including the CEO) for exceeding the Group financial performance target (EBITDA).
- Short term incentives (equity) were earned by all eligible Executives (excluding the CEO) and will vest subject to the Executives remaining employed by the Group as at 31 July 2017.

2. KEY MANAGEMENT PERSONNEL

The following Executives are identified as key management personnel with the authority and responsibility along with the Directors for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Currently Employed:

Xavier Simonet
Chief Executive Officer

Reuben Casey
Chief Financial Officer, Company Secretary

Previously Employed:

Mark Todd
Chief Operating Officer and Finance Director. Resigned as an Executive

Director on 24 August 2015 and as an Executive on 25 September 2015.

OTHER MANAGEMENT TEAM (EXECUTIVE) MEMBERS:

Currently Employed:

Ben Ryan
General Manager, Product, from 1 March 2016

Rebecca Edwards
General Manager, Human Resources

Stephen Domancie
General Manager, Retail Stores & Operations, from 20 July 2016

Caleb Nicolson
General Manager, Supply Chain

Paul Stern
General Manager, Marketing, Online & International

Jolann van Dyk
Chief Information Officer

Previously Employed:

Michelle Adams
General Manager, Product to 29 February 2016

Alison Evans
General Manager Retail Stores to 19 July 2016

All of the above Executives were employed by the Group for the full years ended 31 July 2016 and 2015, unless otherwise stated.

Throughout their period of employment, Mark Todd, Reuben Casey, Michelle Adams, Caleb Nicolson, Jolann Van Dyk, Rebecca Edwards and Ben Ryan were employees of Kathmandu Limited (New Zealand domiciled) and Xavier Simonet, Alison Evans, Paul Stern, and Stephen Domancie were employees of Kathmandu Pty Limited (Australian domiciled).

3. PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The Company's Remuneration and Nomination Committee of the Board, currently comprising all independent non-Executive Directors, determines the quantum and structure of Directors and Executive remuneration. The composition, role and responsibility of the Committee is outlined in the Corporate Governance Statement on page 22 of this annual report. The Committee adopts a series of principles in determining remuneration related decisions. The principles used are:

- The remuneration structure should reward those employees who have the ability to influence the achievement of the Group's strategic objectives and business plans to enhance shareholder value for successful Group performance outcomes and their contribution to these;
- Executive remuneration should be market competitive, and generally account for market practice including consideration of employee place of domicile;
- Executives' remuneration package should have:
  - a substantial portion of total remuneration that is "at risk" and aligned with reward for creating shareholder value,
  - an appropriate balance between short and long-term performance focus and outcomes,
  - a mix of cash and equity based remuneration;
- The CEO due to his leadership role in establishing and delivering achievement of medium and long term Group strategic objectives and business plans, and increasing shareholder value over that period should, relative to other Executives have
  - a greater proportion of total remuneration (at least 50%) that is "at risk", i.e. contingent upon the achievement of performance hurdles, and
  - a greater proportion of "at risk" remuneration weighted towards equity based rewards rather than cash;
- Non-Executive Directors' remuneration should enable the Company to attract and retain high quality Directors with the relevant experience. In order to maintain independence and impartiality, non-Executive Directors should not receive performance based remuneration; and
- The Board uses discretion when setting remuneration levels, taking into account interests of shareholders, the current market environment and Group performance.

4. REMUNERATION FRAMEWORK

The Board, through the Committee undertakes its governance role in establishing Executive remuneration including, where required, use of external independent remuneration consultants and/or available market information.

The Executive remuneration structure has three components:

a) **Base salary and benefits**;

b) **Short term incentives** determined on the basis of achievement of specific targets and outcomes relating to annual Group financial performance and individual value adding performance objectives. The available incentive reward is split between cash and equity; and

c) **Long term incentives** via participation in the Company's Long Term Incentive plan.

The combination of these comprises the CEO's total remuneration. Other Executives have a remuneration framework incorporating components a. and b.

a) Base salary and benefits

Base salary for Executives is reviewed annually to assess appropriateness to the position and competitiveness with the market.

b) Short term incentives (STI)

Executives including the CEO are eligible to participate in an annual STI which delivers rewards by way of cash and deferred equity.

In FY2016 the performance target adopted was Group earnings before interest, tax, depreciation and amortisation (EBITDA).

The amount of any STI paid in a year is dependent upon:

a. the level of performance achieved against the Group's financial performance target for the year; and

b. the outcome of individual value adding performance, measured by achievement of individual KPI's, subject to a minimum level of performance achieved by the Group relative to the financial performance target for the year.

The weighting of STI between Group financial performance, individual KPI's, cash and deferred equity is:

SHORT TERM INCENTIVE WEIGHTING:	CEO		EXECUTIVES	
	Cash	Equity	Cash	Equity
Group financial performance target	70%	-	29%	46%
Individual KPI achievement	30%	-	25%	-
Total	**100%**	**-**	**54%**	**46%**

The CEO's STI is up to 60% of base annual salary and other Executives' STI is up to 52% of base salary.

For Executives (excluding the CEO), where a short term equity incentive is earned, vesting is subject to ongoing employment by the Group for a period of one year following the end of the financial year in which the incentive is earned.

c) Long Term Incentive Plan (LTI)

The LTI plan in FY2016 included the CEO only.

Shareholders reapproved the current LTI plan at the Company's 2013 Annual General Meeting based on the granting of nil cost performance rights. Rights have been offered each year since the plan was originally approved in 2010.

The plan is intended to focus performance on achievement of key long term performance metrics. The selected performance measures provide an appropriate balance between relative and absolute Company performance. The Board continues to reassess the plan and its structure to best support and facilitate the growth in shareholder value over the long term relative to current business plans and strategies. Any grants made to Executive Directors are subject to shareholder approval.

The vesting of these rights is dependent upon the Company achieving Earnings per Share (EPS) and/or relative TSR targets over specified performance periods, with the value of rights allocated between EPS and relative TSR determined each year. EPS is measured on a compound annual growth basis and TSR is measured on a relative basis against a comparator group of ASX listed companies (excluding metal and mining stocks) ranked 101 to 200 in the S&P/ASX200 as at the date of the grant.

In FY2016 the allocation between EPS and relative TSR was 50:50.

Performance measurement under either criterion is at the end of each applicable performance period with no ability to re-test. Fifty per cent of the relevant portion of the award vests for achievement of targets and a further fifty per cent vests for the achievement of aspirational targets. A sliding scale operates between target and aspirational performance levels.

In FY2016 the Board resolved to grant nil cost performance rights to the CEO such that:

- Were measurable for a single specified performance period of three years;
- Required achievement of relative TSR targets and EPS growth targets over a single specified performance period of three years with the value of rights allocated 50:50 between EPS and relative TSR; and
- Performance measurement under either criterion is at the end of the performance period with no ability to re-test.

5. REMUNERATION DETAILS:

Details of the remuneration of the Directors and Key Management Personnel and total remuneration of other Executives of the Group, for the current and prior financial years are set out in section 5.3 of the financial statements.

CEO Remuneration

CEO remuneration comprises a mixture of base salary, STI and LTI:

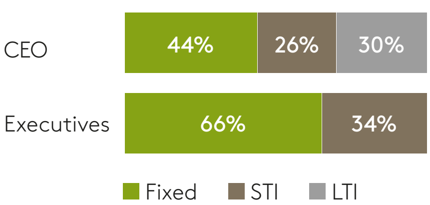
CEO 2016 Remuneration package	A$'000
Fixed (Base salary, superannuation)	780
STI (60% of fixed)	468
LTI (70% of fixed)*	546
Maximum potential remuneration	1,794

*Vesting dependent on achievement of performance hurdles measured over a three-year period. First vesting date 1 December 2018.

At risk – remuneration structure for CEO and Executive

More than half (56%) the total remuneration for Xavier Simonet is at risk. In addition, over 85% of the at risk remuneration (all except for the STI KPI's) is solely dependent on outcomes of Group financial performance against short and long term targets, and all long term incentive (70% of Fixed Annual Remuneration) will be measured on a single 3-year performance period.

REMUNERATION STRUCTURE – CEO AND EXECUTIVE:



FY2016 STI outcomes

For the year ended 31 July 2016 the Group financial performance targets were exceeded and as a result short term cash incentives were paid to the maximum of 60% of fixed annual remuneration for the Chief Executive Officer.

For all eligible Executives (excluding the CEO) short term incentives were paid to the maximum extent of 52% of base salary, split between cash (28%) and equity (24%). Vesting of the equity portion earned is subject to remaining employed by the Group until 31 July 2017.

For the year ended 31 July 2015 the Group's financial performance targets were not met and as a result:

- no annual short term cash incentive was paid; and
- no short term equity incentives granted to Executives in relation to these periods vested.

6. EXECUTIVE SERVICE AGREEMENTS

All Executives are on employment terms consistent with the remuneration framework outlined in this report. Each of the agreements has an open term, and the period of notice to be given by the employee is three months (six months for the CEO). The agreements provide for three months base salary inclusive of any applicable superannuation to be paid in the event of a redundancy (six months for the CEO).

7. NON-EXECUTIVE DIRECTORS' FEES

The current aggregate limit for non-Executive Directors' fees is $A800,000 per annum. In FY2016 the base fee payable (including superannuation if applicable) to the Chairman was $A222,480 and to a non-Executive Director $A116,390 per annum. No additional fees are paid for sub-committee attendances. No increase has been made to Directors fees for the past in two years.

Executive Directors do not receive Directors' fees. The amounts approved for Directors' fees are expressed in AUD given the specific requirements for remuneration reporting applying to ASX listed companies, however all amounts reported in the tables within this report are specified in NZD, being the reporting currency of the Company.

The Board reviews Directors' fees annually; seeking advice from external independent remuneration consultants where required.

Non-Executive Directors do not participate in the Company short or long term incentive schemes.
The following fees apply per annum:

TOTAL FEES	AUD $
Chairman	222,480
Other non-Executive Directors	116,390
Actual fees paid in year ended 31 July 2016 (converted to reporting currency)	NZD $
Chairman	241,553
Other non-Executive Directors	126,368

8. DETAILS OF SHARE-BASED COMPENSATION

Long term incentive plan

The Company Long term incentive plan entitles the Board to grant performance rights for no cash consideration, at intervals determined by the Board.

The number of rights granted and the applicable performance period over which EPS and relative TSR is measured is set out below, along with the fair value of the rights at the grant date. All rights granted to Mark Todd have now lapsed.

2016	GRANT DATE	RIGHTS GRANTED DURING THE YEAR	DATE EXERCISABLE	EXPIRY DATE	TOTAL FAIR VALUE OF PERFORMANCE RIGHTS AT GRANT DATE $
Executive Directors					
Xavier Simonet	16 Dec 2015	407,463	1 Dec 2018	1 Dec 2018	433,948
Total		**407,463**			**433,948**

2015	GRANT DATE	RIGHTS GRANTED DURING THE YEAR	DATE EXERCISABLE	EXPIRY DATE	TOTAL FAIR VALUE OF PERFORMANCE RIGHTS AT GRANT DATE $
Executive Directors					
Mark Todd	12 Dec 2014	110,891	1 Dec 2017	1 Dec 2017	221,782
Total		**110,891**			**221,782**

Shares issued to Directors and Other Executives on Exercise of Performance Rights:

No shares were issued to Directors or Other Executives during FY2016 on exercise of performance rights.

2015	DATE GRANTED	DATE EXERCISED	NUMBER OF SHARES ISSUED
Executive Directors			
Peter Halkett	29 Nov 2010	17 Dec 2014	49,488
Peter Halkett	30 Nov 2011	17 Dec 2014	16,274
Peter Halkett	11 Dec 2012	17 Dec 2014	27,344
Mark Todd	29 Nov 2010	17 Dec 2014	17,460
Mark Todd	30 Nov 2011	17 Dec 2014	9,617
Mark Todd	11 Dec 2012	17 Dec 2014	16,158
Other Executives	29 Nov 2010	17 Dec 2014	29,298
Total			**165,639**

Performance rights granted to each Executive will, subject to satisfaction of performance conditions, vest on the basis of one ordinary share for each performance right which vests, at the end of each performance period.

9. ADDITIONAL INFORMATION, PERFORMANCE RIGHTS VESTING

Performance rights granted, the percentage that vested, the percentage that forfeited and future potential vesting periods are shown in the table below:

	GRANT DATE	VESTED %	FORFEITED %	FINANCIAL PERIODS IN WHICH RIGHTS MAY VEST	MAXIMUM TOTAL NUMBER OF RIGHTS YET TO VEST	MAXIMUM TOTAL VALUE OF GRANTS YET TO VEST
Xavier Simonet	FY2016	0.0%	0.0%	FY2019	407,463	546,000
Mark Todd	FY2015	0.0%	100.0%	FY2019	-	-
Mark Todd	FY2014	0.0%	100.0%	FY2018	-	-
Mark Todd	FY2014	0.0%	100.0%	FY2017	-	-
Mark Todd	FY2014	0.0%	100.0%	FY2016	-	-
Mark Todd	FY2013	0.0%	100.0%	FY2017	-	-
Mark Todd	FY2013	0.0%	100.0%	FY2016	-	-
Mark Todd	FY2012	0.0%	100.0%	FY2016	-	-

The maximum value of performance rights yet to vest has been determined as the total number of performance rights still to vest multiplied by the fair value of each performance right at grant date.

As at 31 July 2016 there are 703,183 nil cost performance rights granted to Executive (excl. CEO) and Senior Management as part of the FY2016 short term incentive which will vest as at 31 July 2017, subject to continuing employment with the Group until 31 July 2017.

Company performance

All Executives' short term incentive is dependent upon the Company's overall financial performance for each financial year. Long term incentive is dependent upon both earnings per share growth and relative total shareholder returns over a range of performance periods.

With reference to the measurement of long term incentive performance the table below outlines the Company's earnings and share performance since its listing on 13 November 2009:

YEAR	NPAT	GROWTH	EPS CENTS PER SHARE	EPS GROWTH	SHARE PRICE AT START OF YEAR	SHARE PRICE AT END OF YEAR	SHARE PRICE GROWTH	ORDINARY DIVIDENDS PAID OR DECLARED PER SHARE
FY2010	$9.4m	NA	0.3	NA	$2.13	$2.05	(3.8%)	$0.07
FY2011	$39.1m	316.0%	19.5	65x	$2.05	$2.20	7.3%	$0.10
FY2012	$34.9m	(10.7%)	17.4	0.9x	$2.20	$1.59	(27.7%)	$0.10
FY2013	$44.2m	26.6%	22.1	1.3x	$1.59	$2.68	68.6%	$0.12
FY2014	$42.2m	(4.5%)	21.0	1.0x	$2.68	$3.33	24.3%	$0.12
FY2015	$20.4m	(51.7%)	10.1	0.5x	$3.33	$1.70	(48.9%)	$0.08
FY2016	$33.5m	64.2%	16.6	1.6x	$1.70	$1.80	5.9%	$0.11

Share price quoted is the NZX listing price. The Company is listed on both the ASX and NZX and options will vest on both exchanges, dependent on where the employee is based.

Shares under options or performance rights

There are no unissued ordinary shares of the Company under any vested options or performance rights at the date of this report.

CHRISTCHURCH SUPPORT OFFICE ACHIEVES A 5 GREEN STAR DESIGN RATING

10. REMUNERATION OF AUDITORS

Details of remuneration of Auditors is set out in Note 5.8 of the Financial Statements.

Non-Audit Services

PricewaterhouseCoopers were appointed auditors of Kathmandu Holdings Limited in 2009 and whilst their main role is to provide audit services to the Company, the Company does employ their specialist advice where appropriate. In each instance, the Board has considered the nature of the advice sought in the context of the audit relationship and in accordance with the advice received from the Audit and Risk Committee, does not consider these services compromised the auditor independence for the following reasons:

- All non-audit services have been reviewed by Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor
- None of the services undermined the general principles relating to auditor independence, including not reviewing or auditing the auditor's own work, not acting in a management or a decision making capacity for the Company, not acting as advocate for the Company or not jointly sharing economic risk or rewards.

This report is made in accordance with a resolution of the Directors.

David Kirk
Chairman

Xavier Simonet
Managing Director

CORPORATE GOVERNANCE

The Board and management of the Company are committed to ensuring that the Company adheres to best practice governance principles and maintains the highest ethical standards. The Board is responsible for the overall corporate governance of the Company, including adopting the appropriate policies and procedures and seeking to ensure Directors, management and employees fulfil their functions effectively and responsibly. The Company is listed on both the New Zealand and Australian stock exchanges. Corporate governance principles and guidelines have been introduced in both countries. These include the Australian Securities Exchange (ASX) Corporate Governance Council Corporate Governance Principles and Recommendations (Third Edition), the New Zealand Stock Exchange Listing Rules relating to corporate governance, the NZX Corporate Governance Best Practice Code, and the Financial Markets Authority Corporate Governance Principles and Guidelines (collectively, the Principles). The Board considers that the Company's corporate governance practices and procedures substantially reflect the principles. The full content of the Company's Corporate governance policies, practices and procedures can be found on the Company's website (kathmanduholdings.com).

The main policies and practices adopted by the Company are summarised below.

Board of Directors Charter and its committees

The Board has adopted a written charter to provide a framework for the effective operation of the Board. The charter addresses the following matters and responsibilities of the Board:

- enhancing Shareholder value;
- oversight of the Company, including its control and accountability systems;
- appointing and removing the Managing Director (or equivalent) and the Chief Financial Officer;
- ratifying the appointment, and where appropriate, the removal of the senior Executives;
- input into and approval of corporate strategy and performance objectives;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- monitoring senior management's performance and implementation strategy, and seeking to ensure appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- approving budgets; and
- approving and monitoring financial and other reporting.

Board Composition

At present, there are six Directors on the Board. Five out of the six Directors are non-Executive Directors. Xavier Simonet (Managing Director and Chief Executive Officer,) is the only Executive Director on the Board. The Chairman of the Board is David Kirk.

The biography of each Board member, including each Director's skills, experience, expertise and the term of office held by each Director at the date of this Annual Report is set out in the "Board of Directors" section of this Annual Report.

Board performance

The Board Charter provides for an annual performance evaluation that compares the performance of the Board with the requirements of this Charter, reviews the performance of the Board's committees and individual Directors and sets forth the goals and objectives of the Board for the upcoming year and effecting any amendments to this Charter considered necessary or desirable of the Board and its Committees.

Independence of Directors

The factors that the Company will take into account when assessing the independence of its Directors are set out in its Charter, a copy of which is available on the Company's website (kathmanduholdings.com).

The Managing Director (Xavier Simonet) is employed by the Company or another Group member in an Executive capacity and is not considered to be an independent Director based on the criteria set out in the Board Charter. All remaining Directors satisfy the criteria and are considered independent Directors, namely David Kirk, John Harvey, John Holland, Sandra McPhee and Christine Cross.

Board committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. The Board has established the Audit and Risk Committee and the Remuneration and Nomination Committee. Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of the Company, relevant legislative and other requirements and the skills and experience of individual Directors.

Audit and Risk Committee

Under its charter, this committee must have at least three members, a majority of whom must be independent Directors and all of whom must be non-Executive Directors. Currently, all the non-Executive Directors are members of this committee. John Harvey is Chair of the committee. The primary role of this committee includes:

- overseeing the process of financial reporting, internal control, continuous disclosure, financial and non-financial risk management and compliance and external audit;
- monitoring Kathmandu's compliance with laws and regulations and

Kathmandu's own codes of conduct and ethics;

- encouraging effective relationships with, and communication between, the Board, Management and Kathmandu's external auditor; and
- evaluating the adequacy of processes and controls established to identify and manage areas of potential risk and to seek to safeguard the Company's assets.

Under the charter it is the policy of the Company that its external auditing firm must be independent of the Company. The committee will review and assess the independence of the external auditor on an annual basis.

Remuneration and Nomination Committee

Under its charter, this committee must have at least three members, a majority of whom must be independent Directors and all of whom must be non-Executive Directors. Currently, all the non-Executive Directors are members of this committee. Sandra McPhee is Chair of the committee. The main functions of the committee, are to assist the Board with a view to establishing a Board of effective composition, size, expertise and commitment to adequately discharge its responsibilities and duties, and assist the Board with a view to discharging its responsibilities to Shareholders and other stakeholders to seek to ensure that the Company:

- has coherent remuneration policies and practices which enable the Company to attract and retain Executives and Directors who will create value for Shareholders;
- fairly and responsibly remunerates Directors and Executives, having regard to the performance of the Company, the performance of the Executives and the general remuneration environment; and
- has effective policies and procedures to attract, motivate and retain appropriately skilled persons to meet the Company's needs.

Risk management policy

The identification and proper management of the Company's risk are an important priority of the Board. The Company has a Risk Management Policy (available on the Company's website kathmanduholdings.com) appropriate for its business. This policy highlights the risks relevant to the Company's operations, and the Company's commitment to designing and implementing systems and methods appropriate to minimise and control its risk. The Audit and Risk Committee is responsible for monitoring risk management and establishing procedures which seek to provide assurance that major business risks are identified, consistently assessed

and appropriately addressed. A risk management framework is in place to identify, oversee, manage and control risk. A formal review of the risk framework was undertaken during the reporting period by the Committee.

Continuous disclosure policy

The Company is committed to observing its disclosure obligations under the Listing Rules. The Company has a policy that establishes procedures which are aimed at ensuring that Directors and Executives are aware of and fulfil their obligations in relation to the timely disclosure of material price-sensitive information.

Securities trading policy

The Company has guidelines for dealing in securities which are intended to explain the prohibited type of conduct in relation to dealings in securities under the Corporations Act 2001 (Australia) and the Securities Markets Act 1988 (NZ) and to establish a best practice procedure in relation to Directors', Executives' and employees' dealings in Shares in the Company. Subject to the overriding restriction that persons may not deal in Shares while they are in possession of material price sensitive information, Directors, Executives and Key management personnel will only be permitted to deal in Shares during certain 'window periods', following the release of the Company's full and half year financial results or the release of a disclosure document offering shares in the Company. Outside of these periods, Directors, Executives and key management personnel must receive clearance in accordance with the protocols detailed in the policy for any proposed dealing in Shares.

Code of Conduct

The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has a formal code of conduct, to be followed by all employees and officers. The key aspects of this code are to:

- act with honesty, integrity and fairness and in the best interest of the Company;
- act in accordance with all applicable laws, regulations, policies and procedures; and
- use Company resources and property properly.

Diversity Policy

Kathmandu's customers around the world reflect the diversity we build into the design of our products and the talented people we seek out to join our team. The collective value of our differences is essential to innovation, travel and adventure. Our respect for each other's unique experiences, perspectives and skill sets is woven into our ethics and the fabric of our culture.

Our Diversity Principles:
Our Diversity Principles affirm our commitment to harness our differences to encourage an innovative, responsive and productive workplace, creating value and rewards for customers, our team, shareholders and our community.

Leadership

We will continue to promote, celebrate and enrich our culture of diversity through inclusive leadership. We will be inclusive of the unique and valuable difference of our team and are committed to providing opportunities that allow all individuals to reach their full potential.

Team	Partnerships	Our Customers
We attract and appoint the best diverse talent from around the world. We reward and promote our team performance, capability and potential.	We select suppliers and partners based on expertise, performance and who demonstrate a commitment to diversity, sustainability and ethical standards.	Our customer's needs are central to our business decisions. We believe the outdoors is for everyone. Our actions are committed to strive to serve a broad and diverse global community.

Employment opportunities and partnerships will not be influenced, affected or limited by passive or explicit discrimination of any kind. We seek out the best talent from around the world and are committed to selecting the candidate who is best qualified for the position and who share our love for travel and adventure.

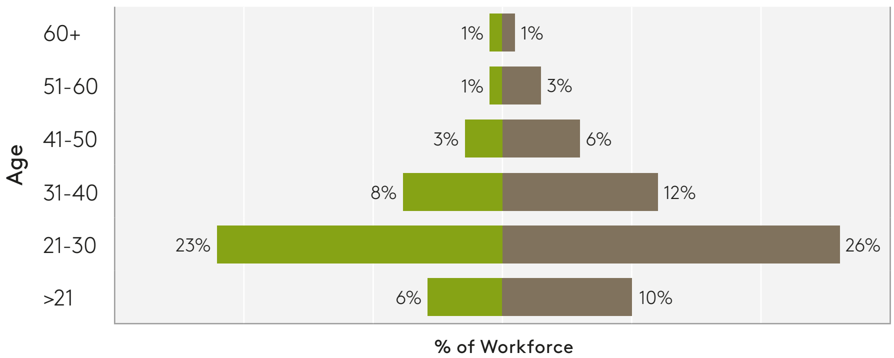
Cultural diversity - We value and encourage the contributions made by each of the over 40 nationalities represented by our team, with multiple languages shared and spoken within our workplaces.

The Board of Directors is represented by 40% female and 60% male with diverse global industry experience, qualifications and backgrounds.

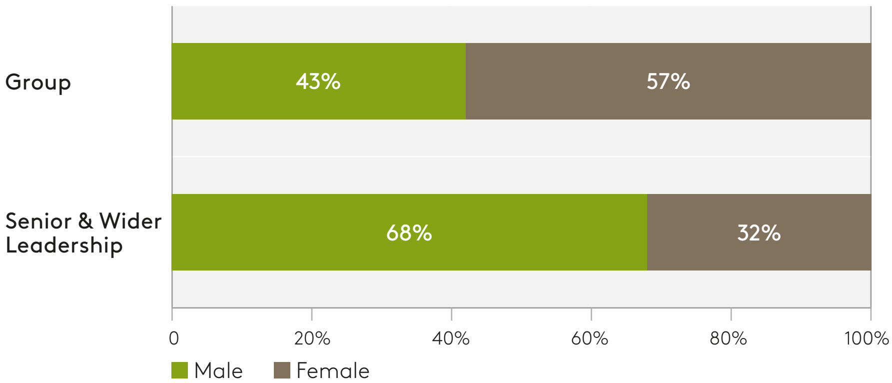
Our Senior Leadership team is diverse in nationality; French, Maori/New Zealand, European, Spanish, Australian, South African; with diverse experiences gained working globally across Australia, New Zealand, United Kingdom, United States, France, Japan, Fiji, Germany, South Africa, China, Korea, Mongolia, Nepal, Malaysia, Singapore, Hong Kong and Scandinavia.

Group Diversity:

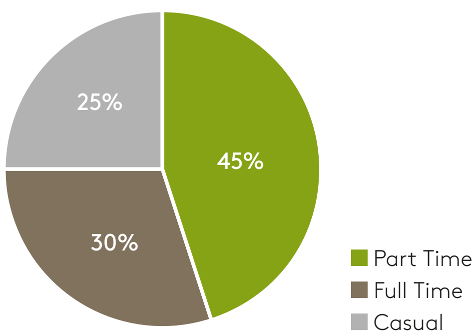
Cross Generation Diversity



Gender Diversity



Working Hours



Remuneration System Based on Performance

We are committed to reward our employees with compensation and benefit programmes that are based on performance merit and experience. In 2015 an audit on employee pay parity was completed. Based upon the results of this audit, Kathmandu has evidence that supports pay equality between gender and other diversity indicators, with no evidence of pay disparity between persons holding the same or similar roles. A review of gender pay parity will continue to be an on-going focus for the company.

Communications with Shareholders

The Company is committed to keeping Shareholders informed of all major developments affecting the Company's state of affairs relevant to Shareholders in accordance with all applicable laws. Information is communicated to Shareholders through the lodgement of all relevant financial and other information with ASX and NZX and publishing information on the Company's website (kathmanduholdings.com). In particular, the Company's website will contain information about the Company, including media releases, key policies and the terms of reference of the Company's Board Committees.

All relevant announcements made to the market and any other relevant information will be posted on the Company's website as soon as they have been released to ASX and NZX.

Economic, Environmental and Social Sustainability

The Company prepares a separate sustainability report in accordance with the Global Reporting Initiative (GRI) G4 reporting framework. It is available online at kathmanduholdings.com.

FINANCIAL STATEMENTS

For the Year Ended 31 July 2016

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 2016

Authorisation for Issue

The Board of Directors authorised the issue of these Consolidated Financial Statements on 21 September 2016.

Approval by Directors

The Directors are pleased to present the Consolidated Financial Statements of Kathmandu Holdings Limited for the year ended 31 July 2016 on pages 27 to 62.

David Kirk	21 September 2016
	Date
Xavier Simonet	21 September 2016
	Date

For and on behalf of the Board of Directors

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 July 2016

	SECTION	2016 NZ$'000	2015 NZ$'000
Sales		425,593	409,372
Cost of sales		(159,232)	(157,482)
Gross profit		266,361	251,890
Selling expenses		(139,285)	(142,893)
Administration and general expenses		(62,278)	(61,945)
		(201,563)	(204,838)
Earnings before interest, tax, depreciation and amortisation		**64,798**	**47,052**
Depreciation and amortisation	3.2/3.3	(13,917)	(13,875)
Earnings before interest and tax		**50,881**	**33,177**
Finance income		26	1,450
Finance expenses		(3,582)	(4,195)
Finance costs - net	4.1.1	(3,556)	(2,745)
Profit before income tax		**47,325**	**30,432**
Income tax expense	2.3	(13,804)	(10,013)
Profit after income tax		**33,521**	**20,419**
Other comprehensive income that may be recycled through profit and loss:			
Movement in cash flow hedge reserve	4.3.2	(15,891)	12,415
Movement in foreign currency translation reserve	4.3.2	(6,384)	1,034
Other comprehensive income/(expense) for the year, net of tax		**(22,275)**	**13,449**
Total comprehensive income for the year attributable to shareholders		**11,246**	**33,868**
Basic earnings per share	2.4	16.6cps	10.1cps
Diluted earnings per share	2.4	16.6cps	10.1cps
Weighted average basic ordinary shares outstanding ('000)	2.4	201,484	201,343
Weighted average diluted ordinary shares outstanding ('000)	2.4	202,439	202,227

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 July 2016

	SHARE CAPITAL NZ$'000	CASH FLOW HEDGE RESERVE NZ$'000	FOREIGN CURRENCY TRANSLATION RESERVE NZ$'000	SHARE BASED PAYMENTS RESERVE NZ$'000	RETAINED EARNINGS NZ$'000	TOTAL EQUITY NZ$'000
Balance as at 31 July 2014	**198,228**	**(2,055)**	**(14,352)**	**733**	**119,592**	**302,146**
Profit after tax	-	-	-	-	20,419	20,419
Other comprehensive income	-	12,415	1,034	-	-	13,449
Dividends paid	-	-	-	-	(24,163)	(24,163)
Issue of share capital	1,963	-	-	(509)	-	1,454
Share options / performance rights lapsed	-	-	-	(209)	209	-
Share based payment expense	-	-	-	9	-	9
Balance as at 31 July 2015	**200,191**	**10,360**	**(13,318)**	**24**	**116,057**	**313,314**
Profit after tax	-	-	-	-	33,521	33,521
Other comprehensive income/(expense)	-	(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
Balance as at 31 July 2016	**200,191**	**(5,531)**	**(19,702)**	**692**	**133,483**	**309,133**

CONSOLIDATED BALANCE SHEET

For the Year Ended 31 July 2016

	SECTION	2016 NZ$'000	2015 NZ$'000
ASSETS			
Current assets			
Cash and cash equivalents	3.1.2	6,891	1,700
Trade and other receivables	3.1.3	5,031	3,741
Derivative financial instruments	4.2	-	13,637
Inventories	3.1.1	95,436	113,270
Total current assets		**107,358**	**132,348**
Non-current assets			
Property, plant and equipment	3.2	61,609	54,093
Intangible assets	3.3	234,015	240,033
Derivative financial instruments	4.2	-	20
Deferred tax	2.3	10,271	3,957
Total non-current assets		**305,895**	**298,103**
Total assets		**413,253**	**430,451**
LIABILITIES			
Current liabilities			
Trade and other payables	3.1.4	51,084	44,048
Derivative financial instruments	4.2	7,529	77
Interest bearing liabilities	4.1	-	39
Current tax liabilities		1,212	1,536
Total current liabilities		**59,825**	**45,700**
Non-current liabilities			
Derivative financial instruments	4.2	604	461
Interest bearing liabilities	4.1	43,691	70,976
Total non-current liabilities		**44,295**	**71,437**
Total liabilities		**104,120**	**117,137**
Net assets		**309,133**	**313,314**
EQUITY			
Contributed equity - ordinary shares	4.3.1	200,191	200,191
Reserves	4.3.2	(24,541)	(2,934)
Retained earnings		133,483	116,057
Total equity		**309,133**	**313,314**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 July 2016

	SECTION	2016 NZ$'000	2015 NZ$'000
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		424,182	409,506
Income tax received		1,357	2,609
Interest received		26	56
		425,565	412,171
Cash was applied to:			
Payments to suppliers and employees		336,968	363,191
Income tax paid		16,688	15,147
Interest paid		2,829	4,206
		356,485	382,544
Net cash inflow from operating activities		**69,080**	**29,627**
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		5	14
		5	14
Cash was applied to:			
Purchase of property, plant and equipment	3.2	20,729	16,093
Purchase of intangibles	3.3	2,467	3,901
		23,196	19,994
Net cash outflow from investing activities		**(23,191)**	**(19,980)**
Cash flows from financing activities			
Cash was provided from:			
Proceeds of loan advances		63,047	101,551
Proceeds from share issues		-	1,454
		63,047	103,005
Cash was applied to:			
Dividends paid		16,119	24,163
Repayment of loan advances		87,658	93,740
		103,777	117,903
Net cash outflow from financing activities		**(40,730)**	**(14,898)**
Net increase / (decrease) in cash held		**5,159**	**(5,251)**
Opening cash and cash equivalents		1,700	7,192
Effect of foreign exchange rates		32	(241)
Closing cash and cash equivalents	**3.1.2**	**6,891**	**1,700**

RECONCILIATION OF NET PROFIT AFTER TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES

	SECTION	2016 NZ$'000	2015 NZ$'000
Profit after taxation		33,521	20,419
Movement in working capital:			
(Increase) / decrease in trade and other receivables		(1,440)	111
(Increase) / decrease in inventories		13,528	(8,429)
Increase / (decrease) in trade and other payables		8,735	6,222
Increase / (decrease) in tax liability		(388)	(1,205)
		20,435	(3,301)
Add non cash items:			
Depreciation	3.2	10,019	10,611
Amortisation of intangibles	3.3	3,898	3,264
Impairment of assets	3.2	1,094	-
Revaluation of derivative financial instruments		5,436	(4,171)
(Increase) / decrease in deferred taxation		(6,481)	2,425
Employee share based remuneration	5.4	692	9
Loss on sale of property, plant and equipment	3.2	466	371
		15,124	12,509
Cash inflow from operating activities		**69,080**	**29,627**

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 21 September 2016.

1.2 Summary of significant accounting policies

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

The 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 profit-oriented 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.

Assumptions underlying management's estimates can be found in the following notes to the financial statements:

AREA OF ESTIMATION	SECTION
Goodwill – assumptions underlying recoverable value	3.3
Fair value of derivatives – assumptions underlying fair value	4.2

Foreign currency translation

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

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

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

All resulting exchange differences are recognised in other comprehensive income.

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

SECTION 2:
RESULTS FOR THE YEAR

In this Section

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

2.1 Segment information

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

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

31 JULY 2016	AUSTRALIA NZ$'000	NEW ZEALAND NZ$'000	UNITED KINGDOM NZ$'000	OTHER NZ$'000	TOTAL NZ$'000
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	**278,428**	**141,682**	**5,483**	**-**	**425,593**
EBITDA	**32,868**	**35,134**	**(541)**	**(2,663)**	**64,798**
Depreciation and software amortisation	7,121	6,581	214	1	13,917
EBIT	25,747	28,553	(755)	(2,664)	50,881
Income tax expense	6,254	8,090	-	(540)	13,804
Total segment assets	**214,846**	**223,718**	**1,657**	**(26,968)**	**413,253**
Total assets includes:					
Non-current assets	149,100	30,215	5	126,575	305,895
Additions to non-current assets	15,545	7,650	1	-	23,196
Total segment liabilities	**127,110**	**32,260**	**13,460**	**(68,710)**	**104,120**

31 JULY 2015	AUSTRALIA NZ$'000	NEW ZEALAND NZ$'000	UNITED KINGDOM NZ$'000	OTHER NZ$'000	TOTAL NZ$'000
Total segment sales	266,437	140,264	5,851	-	412,552
Inter-segment sales	(1,852)	(1,136)	(192)	-	(3,180)
Sales from external customers	**264,585**	**139,128**	**5,659**	**-**	**409,372**
EBITDA	**21,846**	**28,747**	**(2,078)**	**(1,463)**	**47,052**
Depreciation and software amortisation	7,098	6,067	707	3	13,875
EBIT	14,748	22,680	(2,785)	(1,466)	33,177
Income tax expense	2,840	7,583	-	(410)	10,013
Total segment assets	**223,080**	**207,071**	**7,464**	**(7,164)**	**430,451**
Total assets includes:					
Non-current assets	142,667	27,569	1,451	126,416	298,103
Additions to non-current assets	11,883	8,084	27	-	19,994
Total segment liabilities	**120,688**	**26,038**	**20,730**	**(50,319)**	**117,137**

The New Zealand segment has been represented to exclude holding company balances. Other represents holding companies and consolidation eliminations.

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.

Deferred tax assets have been included within non-current assets as they form part of the amounts provided to the Chief Operating Decision Maker.

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

	2016 NZ$'000	2015 NZ$'000
Wages, salaries and other short term benefits	82,476	81,676
Employee share based remuneration	692	9

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

	2016	2015
Australia	754	759
New Zealand	488	509
United Kingdom	5	27

(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.

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.

	2016 NZ$'000	2015 NZ$'000
Rental and operating lease expenses	58,252	52,971

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

	2016 NZ$'000	2015 NZ$'000
Due within 1 year	52,120	52,682
Due within 1-2 years	40,905	43,402
Due within 2-5 years	70,970	72,363
Due after 5 years	32,112	26,212
	196,107	194,659

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.

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:

	2016 NZ$'000	2015 NZ$'000
Current income tax charge	14,996	11,356
Deferred income tax charge / (credit)	(1,192)	(1,343)
Income tax charge reported in statement of comprehensive income	13,804	10,013

In order to understand how, in the statement of comprehensive income, a tax charge of $13,804,426 (2015: $10,012,821) arises on profit before income tax of $47,324,681 (2015: $30,432,471), the taxation charge that would arise at the standard rate of New Zealand corporate tax is reconciled to the actual tax charge as follows:

	2016 NZ$'000	2015 NZ$'000
Profit before income tax	47,325	30,432
Income tax calculated at 28%	13,251	8,521
Adjustments to taxation:		
Adjustments due to different rate in different jurisdictions	550	360
Non-taxable income	(25)	(596)
Expenses not deductible for tax purposes	1,492	1,169
Tax expense transferred to foreign currency translation reserve	(1,462)	644
Adjustments in respect of prior years	(2)	(85)
Income tax charge reported in statement of comprehensive income	13,804	10,013

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

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

	2016 NZ$'000	2015 NZ$'000
Movement in cash flow hedge reserve before tax	(21,230)	16,160
Tax impact relating to cash flow hedge reserve	5,339	(3,745)
Movement in cash flow hedge reserve after tax	(15,891)	12,415
Foreign currency translation reserve before tax	(7,629)	1,654
Tax credit / (charge) relating to foreign currency translation reserve	1,245	(620)
Movement in foreign currency translation reserve after tax	(6,384)	1,034
Total other comprehensive income before tax	(28,859)	17,814
Total tax credit / (charge) on other comprehensive income	6,584	(4,365)
Total other comprehensive income after tax	(22,275)	13,449
Current tax	1,462	(644)
Deferred tax	5,122	(3,721)
Total tax credit / (charge) on other comprehensive income	6,584	(4,365)

Unrecognised tax losses

The Group has estimated tax losses to carry forward from Kathmandu (U.K.) Limited of £11,163,169 (NZ$24,427,066) (2015: £10,399,107 (NZ$21,008,297)) which can be carried forward to be offset against future profits generated within the UK.

Imputation credits

	2016 NZ$'000	2015 NZ$'000
Imputation credits available for use in subsequent reporting periods based on a tax rate of 28%	4,934	4,702

The above amounts represent the balance of the imputation account as at the end of July 2016, 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 2016 is A$4,093,795 (2015: A$1,164,293).

Taxation – Balance sheet

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

	TAX DEPRECIATION NZ$'000	EMPLOYEE OBLIGATIONS NZ$'000	FOREIGN EXCHANGE NZ$'000	OTHER TIMING DIFFERENCES NZ$'000	RESERVES NZ$'000	TOTAL NZ$'000
As at 31 July 2014	218	1,086	561	3,679	791	6,335
Recognised in the statement of comprehensive income	(43)	78	1,015	293	-	1,343
Recognised in other comprehensive income	-	-	7	17	(3,745)	(3,721)
As at 31 July 2015	175	1,164	1,583	3,989	(2,954)	3,957
Recognised in the statement of comprehensive income	(336)	257	(797)	2,068	-	1,192
Recognised in other comprehensive income	-	(51)	(37)	(129)	5,339	5,122
As at 31 July 2016	(161)	1,370	749	5,928	2,385	10,271

The deferred tax balance relates to:

- Property, plant and equipment temporary differences arising on differences in accounting and tax depreciation rates
- Employee benefits accruals
- 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 $33,520,955 (2015: 20,419,451) by the weighted average number of ordinary shares in issue during the year of 201,484,583 (2015: 201,342,759).

Diluted EPS reflects any commitments the Group has to issue shares in the future that would decrease EPS. In 2016, 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.

	2016 NZ$'000	2015 NZ$'000
Weighted average number of shares in issue	201,484	201,343
Adjustment for:		
- Share options / performance rights	955	884
	202,439	202,227

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. A stock provision is recognised for stock which is expected to sell for less than cost. Any increase in these provisions is taken as a reduction to inventory on the balance sheet and expensed to cost of sales.

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

	2016 NZ$'000	2015 NZ$'000
Trading stock	81,922	101,198
Goods in transit	13,514	12,072
	95,436	113,270

Inventory has been reviewed for obsolescence and a provision of $396,259 (2015: $454,413) has been made.

3.1.2 Cash and cash equivalents

	2016 NZ$'000	2015 NZ$'000
Cash on hand	171	175
Cash at bank	6,707	1,508
Short term deposits	13	17
	6,891	1,700

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

	2016 NZ$'000	2015 NZ$'000
NZD	2,085	520
AUD	3,239	471
GBP	644	237
USD	921	470
EUR	2	2
	6,891	1,700

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.

	2016 NZ$'000	2015 NZ$'000
Trade receivables	133	98
Other assets and prepayments	4,898	3,643
	5,031	3,741

Other assets include balances in relation to landlord incentives and takeover bid costs from Briscoe Group Limited. The Group considers the takeover bid costs recoverable and has issued legal proceedings for balances owed.

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

NZD	3,335	1,584
AUD	1,608	1,833
GBP	88	324
	5,031	3,741

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.

	2016 NZ$'000	2015 NZ$'000
Trade payables	12,533	14,255
Employee entitlements	9,793	7,780
Sundry creditors and accruals	27,618	20,600
Provisions	1,140	1,413
	51,084	44,048

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

NZD	11,292	9,490
AUD	35,602	30,930
GBP	903	1,042
EUR	41	-
USD	3,246	2,586
	51,084	44,048

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

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):

	2016 NZ$'000	2015 NZ$'000
Cash and cash equivalents	6,891	1,700
Trade receivables	133	98
Sundry debtors	2,317	1,039
	9,341	2,837

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:

	2016 NZ$'000	2015 NZ$'000
Cash and cash equivalents:		
Standard & Poors - AA-	6,267	1,494
Standard & Poors - BBB+	624	206
Total cash and cash equivalents	6,891	1,700

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.

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 NZ$'000	OFFICE, PLANT & EQUIPMENT NZ$'000	FURNITURE & FITTINGS NZ$'000	COMPUTER EQUIPMENT NZ$'000	TOTAL NZ$'000
Year ended 31 July 2015					
Opening net book value	27,514	1,817	16,981	2,090	48,402
Additions	10,679	723	3,905	786	16,093
Disposals	(101)	(15)	(74)	(11)	(201)
Depreciation charge	(5,965)	(464)	(3,281)	(901)	(10,611)
Exchange differences	296	4	102	8	410
Closing net book value	32,423	2,065	17,633	1,972	54,093
As at 31 July 2015					
Cost	60,243	5,778	30,672	8,120	104,813
Accumulated depreciation	(27,820)	(3,713)	(13,039)	(6,148)	(50,720)
Closing net book value	32,423	2,065	17,633	1,972	54,093
Year ended 31 July 2016					
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
As at 31 July 2016					
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

An impairment loss of $1,093,945 has been recognised for leasehold improvements in relation to the closure of the United Kingdom store network.

Depreciation

	2016 NZ$'000	2015 NZ$'000
Leasehold improvements	5,354	5,965
Office, plant and equipment	358	464
Furniture and fittings	3,780	3,281
Computer equipment	527	901
Total depreciation	10,019	10,611

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.

	2016 NZ$'000	2015 NZ$'000
Loss/(gain) on sale of property, plant and equipment	466	371

Capital commitments

Capital commitments contracted for at balance date include property, plant and equipment of $2,881,771 (2015: $18,486,358).

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.

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

	GOODWILL NZ$'000	BRAND NZ$'000	SOFTWARE NZ$'000	TOTAL NZ$'000
Year ended 31 July 2015				
Opening net book value	75,406	152,098	11,170	238,674
Additions	-	-	3,901	3,901
Disposals	-	-	(185)	(185)
Amortisation	-	-	(3,264)	(3,264)
Exchange differences	-	897	10	907
Closing net book value	75,406	152,995	11,632	240,033
As at 31 July 2015				
Cost	76,677	152,995	22,467	252,139
Accumulated amortisation/impairment	(1,271)	-	(10,835)	(12,106)
Closing net book value	75,406	152,995	11,632	240,033
Year ended 31 July 2016				
Opening net book value	75,406	152,995	11,632	240,033
Additions	-	-	2,467	2,467
Disposals	-	-	(14)	(14)
Amortisation	-	-	(3,898)	(3,898)
Exchange differences	-	(4,538)	(35)	(4,573)
Closing net book value	75,406	148,457	10,152	234,015
As at 31 July 2016				
Cost	76,677	148,457	24,709	249,843
Accumulated amortisation/impairment	(1,271)	-	(14,557)	(15,828)
Closing net book value	75,406	148,457	10,152	234,015

Impairment tests for goodwill and brand

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

GROUP	GOODWILL		BRAND	
	2016 NZ$'000	2015 NZ$'000	2016 NZ$'000	2015 NZ$'000
New Zealand	28,654	28,654	51,000	51,000
Australia	46,752	46,752	97,457	101,995
	75,406	75,406	148,457	152,995

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:

	2016	2015
Terminal growth rate	1.0%	2.0%
New Zealand CGU pre-tax discount rate	12.8%	14.9%
Australia CGU pre-tax discount rate	13.0%	13.5%

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 (2015: 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 $1,410,000 (2015: $1,192,243).

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:

	2016 NZ$'000	2015 NZ$'000
Current portion	-	39
Non-current portion	43,691	70,976
Total term loans	43,691	71,015

The Group has a multi option facility agreement with Commonwealth Bank of Australia and ASB Bank Limited and a facility agreement with Bank of New Zealand and National Bank of Australia.

The loans are repayable in full on final maturity date of the facilities being 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%. The bank loans are secured against the assets of the company and its subsidiaries.

The covenants entered into by the Group require specified calculations of Group earnings before interest, tax, depreciation and amortisation (EBITDA) plus lease rental costs to exceed total fixed charges (net interest expense and lease rental costs) at the end of each 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 2016.

The current interest rates, prior to hedging, on the term loans ranged between 2.56% - 3.13% (2015: 2.90% - 4.37%).

	2016 NZ$'000	2015 NZ$'000
The principal of interest bearing liabilities is:		
Payable within 1 year	-	39
Payable 1 to 2 years	43,691	-
Payable 2 to 3 years	-	70,976
Payable 3 to 4 years	-	-
	43,691	71,015

4.1.1 Finance costs

	2016 NZ$'000	2015 NZ$'000
Interest income	(26)	(56)
Interest expense	2,665	3,645
Other finance costs	344	594
Net exchange loss/(gain) on foreign currency borrowings	573	(1,438)
	3,556	2,745

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):

	2016 NZ$'000	2015 NZ$'000
Total secured loans	43,691	70,976
less Principal covered by interest rate swaps	(47,017)	(50,694)
Net Principal subject to floating interest rates[1]	(3,326)	20,282

[1] Debt levels fluctuate throughout the year and as at 31 July, are at a cyclical low.

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 $697,687 (2015: $517,348).

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% (2015: 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.

		-1%		+1%	
31 JULY 2016	**CARRYING AMOUNT NZ$'000**	**PROFIT NZ$'000**	**EQUITY NZ$'000**	**PROFIT NZ$'000**	**EQUITY NZ$'000**
Derivative financial instruments (asset) / liability	8,133	(470)	777	470	(750)
Financial assets					
Cash	6,891	(50)	-	50	-
		(50)	-	50	-
Financial liabilities					
Borrowings	43,691	437	-	(437)	-
		437	-	(437)	-
Total increase / (decrease)		(83)	777	83	(750)

		-1%		+1%	
31 JULY 2015	**CARRYING AMOUNT NZ$'000**	**PROFIT NZ$'000**	**EQUITY NZ$'000**	**PROFIT NZ$'000**	**EQUITY NZ$'000**
Derivative financial instruments (asset) / liability	(13,119)	(507)	876	507	(908)
Financial assets					
Cash	1,700	(12)	-	12	-
		(12)	-	12	-
Financial liabilities					
Borrowings	70,976	710	-	(710)	-
		710	-	(710)	-
Total increase / (decrease)		191	876	(191)	(908)

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 lending facilities of $116,525,424 / $110,000,000 AUD (2015: $138,580,931 / $125,000,000 AUD) and operates well within this facility. This includes short term bank overdraft requirements, and at balance date no bank accounts were in overdraft.

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.

	LESS THAN 1 YEAR NZ$'000	BETWEEN 1 AND 2 YEARS NZ$'000	BETWEEN 2 AND 5 YEARS NZ$'000	OVER 5 YEARS NZ$'000
Group 2016				
Trade and other payables	51,084	-	-	-
Borrowings	1,222	44,477	-	-
	52,306	44,477	-	-
Group 2015				
Trade and other payables	44,048	-	-	-
Borrowings	2,184	2,178	72,976	-
	46,232	2,178	72,976	-

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.

	LESS THAN 1 YEAR NZ$'000	BETWEEN 1 AND 2 YEARS NZ$'000	BETWEEN 2 AND 5 YEARS NZ$'000
At 31 July 2016			
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)
At 31 July 2015			
Forward foreign exchange contracts			
- Inflow	146,814	-	-
- Outflow	(133,177)	-	-
Net Inflow / (Outflow)	13,637	-	-
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	(263)	(143)	(77)

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.

Derivative financial instruments

	2016 NZ$'000	2015 NZ$'000
Foreign exchange contracts		
Current asset	-	13,637
Current liability	(7,435)	-
Net foreign change contracts – cash flow hedge (asset / (liability))	(7,435)	13,637
Interest rate swaps		
Non-current asset	-	20
Current liability	(94)	(77)
Non-current liability	(604)	(461)
Net interest rate swaps – cash flow hedge (asset / (liability))	(698)	(518)
Total derivative financial instruments	(8,133)	13,119

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 $47,016,949 (2015: $50,694,013). The fixed interest rates range between 2.13% and 4.13% (2015: 3.05% 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$81,700,000, NZ$121,765,202 (2015: US$95,450,000, NZ$133,176,765).

No material hedge ineffectiveness for interest rate swaps or foreign exchange contracts exists as at balance date (2015: 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.

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% (2015: -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% (2015: -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.

		-10%		+10%	
31 JULY 2016	**CARRYING AMOUNT NZ$'000**	**PROFIT NZ$'000**	**EQUITY NZ$'000**	**PROFIT NZ$'000**	**EQUITY NZ$'000**
Derivative financial instruments (asset) / liability	8,133	-	(12,704)	-	10,394
Financial assets					
Cash	6,891	384	-	(315)	-
Trade receivables and sundry debtors	2,450	(30)	-	25	-
		354	-	(290)	-
Financial liabilities					
Trade payables	51,084	(3,183)	-	2,605	-
Borrowings	43,691	-	(2,415)	-	1,976
		(3,183)	(2,415)	2,605	1,976
Total increase / (decrease)		**(2,829)**	**(15,119)**	**2,315**	**12,370**

		-10%		+10%	
31 JULY 2015	**CARRYING AMOUNT NZ$'000**	**PROFIT NZ$'000**	**EQUITY NZ$'000**	**PROFIT NZ$'000**	**EQUITY NZ$'000**
Derivative financial instruments (asset) / liability	(13,119)	-	(16,312)	-	13,365
Financial assets					
Cash	1,700	131	-	(107)	-
Trade receivables and sundry debtors	1,137	(173)	-	141	-
		(42)	-	34	-
Financial liabilities					
Trade payables	44,048	(2,765)	-	2,262	-
Borrowings	70,976	-	(4,878)	-	3,991
		(2,765)	(4,878)	2,262	3,991
Total increase / (decrease)		**(2,807)**	**(21,190)**	**2,296**	**17,356**

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 2016 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

	2016 NZ$'000	2015 NZ$'000
Ordinary shares fully paid ($)	200,191	200,191
Balance at beginning of year	200,191	198,228
Issue of shares under Executive and Senior Management Long Term Incentive Plan	-	1,963
Balance at end of year	200,191	200,191

Number of issued shares

	2016 NZ$'000	2015 NZ$'000
Ordinary shares issued at beginning of the year	201,484	200,633
Shares issued under Executive and Senior Management Long Term Incentive Plan	-	851
Ordinary shares issued at end of the year	201,484	201,484

As at 31 July 2016 there were 201,484,583 ordinary issued shares in Kathmandu Holdings Limited and these are classified as equity. No shares (2015: 165,639) were issued under the "Executive and Senior Management Long Term Incentive Plan 24 November 2010" and no shares (2015: 685,475) 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.

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

		2016 NZ$'000	2015 NZ$'000
(i) Cash flow hedging reserve			
Opening balance		10,360	(2,055)
Revaluation - gross		(4,470)	29,281
Deferred taxation on revaluation	2.3	5,339	(3,745)
Transfer to hedged asset		(16,782)	(12,857)
Transfer to net profit - gross		22	(264)
Closing balance		(5,531)	10,360
(ii) Foreign currency translation reserve			
Opening balance		(13,318)	(14,352)
Currency translation differences – gross		(7,629)	1,654
Currency translation differences – taxation	2.3	1,245	(620)
Closing balance		(19,702)	(13,318)
(iii) Share based payments reserve			
Opening balance		24	733
Current year amortisation		692	9
Transfer to share capital on vesting of shares to employees		-	(509)
Share options / performance rights lapsed		(24)	(209)
Closing balance		692	24
Total reserves		(24,541)	(2,934)

4.3.3 Dividends

	2016 NZ$'000	2015 NZ$'000
Prior year final dividend paid	10,075	18,119
Current year interim dividend paid	6,044	6,044
Dividends paid ($0.08 per share (2015: $0.12))	16,119	24,163

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 2016	2015
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 $223,681 (2015: $40,921) were paid to Chapman Tripp for services provided to the Group (primarily related to takeover defence activity and property leases). John Holland is both a Director of Kathmandu Holdings Limited and a Consultant of Chapman Tripp. As at 31 July 2016, the Group owed outstanding legal fees of $2,652 (2015: $754).

During the year, operating lease costs of $240,478 (2015: $238,536) 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

	2016 NZ$'000	2015 NZ$'000
Salaries	3,549	2,844
Other short-term employee benefits	1,327	166
Employee performance rights	218	9
	5,094	3,019

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.

5.3 Remuneration Detail

2016	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	SHARE BASED PAYMENTS			
NAME	CASH SALARY AND FEES $	CASH BONUS $	NON-MONETARY BENEFITS $	SUPER-ANNUATION $	PERFORMANCE RIGHTS $	EQUITY RELATED %	TOTAL $	PERFORMANCE RELATED %
Non-Executive Directors								
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%
	747,025	**-**	**-**	**-**	**-**	**0.0%**	**747,025**	**0.0%**
Executive Directors								
Xavier Simonet[1]	814,531	556,745	-	20,707	91,679	6.2%	1,483,662	39.0%
Mark Todd[2]	345,668	-	1,867	10,370	-	0.0%	357,905	0.0%
	1,160,199	**556,745**	**1,867**	**31,077**	**91,679**	**5.0%**	**1,841,567**	**30.2%**
Other Key Management Personnel								
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%
Total	**4,176,815**	**1,314,641**	**13,199**	**119,790**	**218,320**	**3.7%**	**5,842,765**	**22.5%**

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

2015	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS	SHARE BASED PAYMENTS			
NAME	CASH SALARY AND FEES $	CASH BONUS $	NON-MONETARY BENEFITS $	SUPER-ANNUATION $	PERFORMANCE RIGHTS $	EQUITY RELATED %	TOTAL $	PERFORMANCE RELATED %
Non-Executive Directors								
David Kirk	242,230	-	-	-	-	0.0%	242,230	0.0%
John Harvey	125,449	-	-	-	-	0.0%	125,449	0.0%
John Holland	125,449	-	-	-	-	0.0%	125,449	0.0%
Sandra McPhee	125,449	-	-	-	-	0.0%	125,449	0.0%
Christine Cross	125,449	-	-	-	-	0.0%	125,449	0.0%
	744,026	**-**	**-**	**-**	**-**	**0.0%**	**744,026**	**0.0%**
Executive Directors								
Xavier Simonet[1]	77,283	56,831	-	2,153	-	0.0%	136,267	0.0%
Peter Halkett[2]	297,909	-	-	6,588	4,367	1.4%	308,864	0.0%
Mark Todd[3]	690,701	-	2,655	22,183	1,541	0.2%	717,080	0.0%
	1,065,893	**56,831**	**2,655**	**30,924**	**5,908**	**0.5%**	**1,162,211**	**0.0%**
Other Key Management Personnel								
Reuben Casey	311,025	-	2,599	9,926	-	0.0%	323,550	0.0%
Other Management[4]	2,105,366	91,803	12,311	65,492	2,593	0.1%	2,277,565	0.0%
Total	**4,226,310**	**148,634**	**17,565**	**106,342**	**8,501**	**0.2%**	**4,507,352**	**0.0%**

1. CEO from 29 June 2015. Cash bonus paid is a sign on bonus; 2. Resigned as CEO effective 6 October 2014; 3. Acting CEO 6 October 2014 to 28 June 2015. Resigned as Executive Director effective 24 August 2015; 4. Cash bonus paid relates to sign on bonus.

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 the 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
16 Dec 2015	-	407,463	-	-	407,463
12 Dec 2014	110,891	-	-	(110,891)	-
11 Dec 2013	99,153	-	-	(99,153)	-
11 Dec 2012	64,632	-	-	(64,632)	-
30 Nov 2011	27,474	-	-	(27,474)	-
	302,150	407,463	-	(302,150)	407,463

The performance rights granted on 16 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
16 Dec 2015	1	50%	50%
12 Dec 2014	1	0%	100%
11 Dec 2013	3	50%	50%
11 Dec 2012	3	50%	50%
30 Nov 2011	3	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 50th percentile	0%
50th percentile	50%
51st – 74th percentile	50% + 2% for each percentile above the 50th
75th percentile or above	100%

The TSR performance is calculated for the following performance periods:

TRANCHE	2016	2015
Tranche 1	36 months to 1 December 2018	36 months to 1 December 2017

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:

	2016	2015
Fair value of TSR rights	$189,470	$221,782
Current price at grant date	$1.44	$3.05
Risk free interest rate	2.76%	3.70%
Expected life (years)	3	3
Expected share volatility	45.7%	38.5%

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 2015. The applicable performance periods are:

TRANCHE	2016 PERFORMANCE PERIOD	2015 PERFORMANCE PERIOD
Tranche 1	FY18 EPS relative to FY15 EPS	N/A

The percentage of the 2016 EPS growth related rights scales according to the compound average annual EPS growth achieved as follows:

EPS GROWTH	2016 % RIGHTS VESTING
< 17.5%	0%
>=17.5%, < 18.5%	50%
>=18.5%, < 19.5%	60%
>=19.5%, < 20.5%	70%
>=20.5%, < 21.5%	80%
>=21.5%, < 22.5%	90%
>=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
18 Dec 2015	-	941,948	-	(238,765)	703,183

Short Term Incentive performance rights vest:

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

The performance period and vesting dates are summarised below:

	2016
Grant Date	18 Dec 2015
Performance period (year ending)	31 Jul 2016
Vesting Date – Key Management Personnel and Senior Management	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$1.45 per right.

The non-market performance hurdles set for the year ending 31 July 2016 were met and accordingly an expense has been recognised in the Statement of Comprehensive Income.

Expenses arising from equity settled share based payments transactions

	2016 NZ$'000	2015 NZ$'000
Executive Directors	92	9
Key Management Personnel and Senior Management	600	-
	692	9

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.

	2016 NZ$'000	2015 NZ$'000
Liabilities outstanding under letters of credit	159	1,871

5.6 Contingent assets

There are no contingent assets in 2016 (2015: 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

	2016 NZ$'000	2015 NZ$'000
Directors' fees	747	744

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

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

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:

	2016 NZ$'000	2015 NZ$'000
Audit services - PricewaterhouseCoopers		
Statutory audit	130	126
Half year review	30	30
Other assurance services*	37	26
Total remuneration for audit services	197	182

* Other assurance services relate to a treasury review, the preparation of revenue certificates and a system implementation 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 2015 that have a significant impact on the Group.

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

NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group intends to adopt NZ IFRS 15 on 1 August 2018 and is currently assessing its full impact. This standard is not expected to significantly impact the Group.

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group intends to adopt NZ IFRS 9 on 1 August 2018 and has yet to assess its full impact.

NZ IFRS 16, 'Leases' requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use' asset for virtually all lease contracts. The standard replaces the current guidance in NZ IAS 17 'Leases'. The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted. The Group intends to adopt NZ IFRS 16 on 1 August 2019 and has yet to assess its full impact.

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Independent auditor's report

To the shareholders of Kathmandu Holdings Limited

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 2016, 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).

What we have audited

Kathmandu Holdings Limited's consolidated financial statements comprise:

- the balance sheet as at 31 July 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

Our firm carries out other services for the Group in the areas of the treasury advice and other assurance services. The provision of these other services has not impaired our independence as auditor of the Group.

PricewaterhouseCoopers
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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.

Our opinion on the financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page5.aspx

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants — Christchurch

21 September 2016

STATUTORY INFORMATION

Employee remuneration

The Group operates in New Zealand, Australia and the UK where remuneration market levels differ. The offshore remuneration amounts are converted into New Zealand dollars. Of the employees noted in the table below, 45% are employed by the Group outside New Zealand. During the year a number of employees or former employees, not being Non-Executive Directors of the Group, received remuneration and other benefits that exceeded NZ$100,000 in value as follows:

REMUNERATION			NUMBER OF EMPLOYEES
$		$	
100,000	-	110,000	10
110,000	-	120,000	7
120,000	-	130,000	6
130,000	-	140,000	8
140,000	-	150,000	5
150,000	-	160,000	5
160,000	-	170,000	2
170,000	-	180,000	4
180,000	-	190,000	1
190,000	-	200,000	1
200,000	-	210,000	2
210,000	-	220,000	5
230,000	-	240,000	1
260,000	-	270,000	1
270,000	-	280,000	1
300,000	-	310,000	1
340,000	-	350,000	1
350,000	-	360,000	1
450,000	-	460,000	1
480,000	-	490,000	1
500,000	-	510,000	1
780,000	-	790,000	1
1,480,000	-	1,490,000	1

Distribution of shareholders and holdings

	NUMBER OF HOLDERS	%	NUMBER OF ORDINARY SHARES	%
1 to 999	1,089	25%	596,180	0%
1,000 to 4,999	1,812	43%	5,055,802	3%
5,000 to 9,999	707	17%	5,329,121	3%
10,000 to 99,999	589	14%	15,063,052	7%
100,000 and over	54	1%	175,440,428	87%
Total	**4,251**	**100%**	**201,484,583**	**100%**

The details set out above were as at 12 September 2016.

The Company has only one class of shares on issue, ordinary shares, and these shares are listed on the NZX and ASX. There are no other classes or equity security currently on issue. The Company's ordinary shares each carry a right to vote on any resolution on a poll at a meeting of shareholders. Holders of ordinary shares may vote at a meeting in person, or by proxy, representative or attorney. Voting may be conducted by voice, by show of hands, or poll. There are no voting rights attached to options.

There were 165 shareholders holding less than a marketable parcel, as defined by ASX Listing Rules, of the Company's ordinary shares, based on the market price as at 12 September 2016.

There are no restricted securities or securities subject to voluntary escrow on issue.

Limitations on the acquisition of securities

The Company is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act 2001 (Australia) dealing with the acquisition of shares (i.e. substantial holdings and takeovers).

Limitations on the acquisition of the securities imposed by the jurisdiction in which the Company is incorporated (New Zealand) are:

(a) In general, securities in the Company are freely transferable and the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.

(b) The New Zealand Takeovers Code creates a general rule under which the acquisition of 20% or more of the voting rights in the Company or the increase of an existing holding of 20% or more of the voting rights of the Company can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition of a shareholder holds 90% or more of the shares of the Company.

(c) The New Zealand Overseas Investment Act 2005 and Overseas Investment Regulations 2005 (New Zealand) regulate certain investments in New Zealand by overseas persons. In general terms, the consent of the New Zealand Overseas Investment Office is likely to be required where an "overseas person" acquires shares in the Company that amount to 25% or more of the shares issued by the Company, or if the overseas person already holds 25% or more, the acquisition increases that holding.

(d) The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring shares in the Company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in the market.

Substantial security holders

According to notices given under the Securities Markets Act 1988 (New Zealand), the substantial security holders in ordinary shares (being the only class of listed voting securities) of the Company and their relevant interests according to the substantial security holder file as at 12 September 2016, were as follows:

	ORDINARY SHARES	%
Briscoe Group Limited (30 June 2015)	40,095,432	19.9%
The Goldman Sachs Group Inc (18 February 2016)	27,511,932	13.7%
BNP Paribas Pty Limited as Custodian for UniSuper Limited (4 May 2016)	13,858,777	6.9%
Accident Compensation Corporation (2 September 2016)	13,374,399	6.6%
Challenger Limited (30 June 2016)	10,452,516	5.2%

As at 12 September 2016, the Company had 201,484,583 ordinary shares on issue.

Principal shareholders

The names and holdings of the twenty largest shareholders as at 12 September 2016 were:

	NAME	ORDINARY SHARES	%
1	NEW ZEALAND CENTRAL SECURITIES DEPOSITORY LIMITED	57,454,417	28.52%
2	BRISCOE GROUP LIMITED	40,095,432	19.90%
3	J P MORGAN NOMINEES AUSTRALIA LIMITED	31,853,511	15.81%
4	BNP PARIBAS NOMINEES PTY LTD	13,306,261	6.60%
5	CITICORP NOMINEES PTY LIMITED	7,649,220	3.80%
6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,160,953	3.55%
7	FORSYTH BARR CUSTODIANS LTD	2,836,421	1.41%
8	NATIONAL NOMINEES LIMITED	1,616,316	0.80%
9	UBS NOMINEES PTY LTD	1,465,223	0.73%
10	BNP PARIBAS NOMS PTY LTD	964,619	0.48%
11	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	706,262	0.35%
12	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	698,005	0.35%
13	NEW ZEALAND DEPOSITORY NOMINEE LIMITED	698,002	0.35%
14	KINGFISHER NOMINEES PTY LTD	599,981	0.30%
15	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	570,092	0.28%
16	CS FOURTH NOMINEES PTY LIMITED	523,632	0.26%
17	CITICORP NOMINEES PTY LIMITED	432,172	0.21%
18	FNZ CUSTODIANS LIMITED	413,620	0.21%
19	LEVERAGED EQUITIES FINANCE LIMITED	412,252	0.20%
20	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD	391,075	0.19%

Directors' shareholdings

Directors held interests in the following shares of the Company at 31 July 2016:

John Holland	beneficially owned	122,033
David Kirk	beneficially owned	62,150
Sandra McPhee	beneficially owned	58,823
John Harvey	beneficially owned	51,563
Xavier Simonet	beneficially owned	13,810

Share dealings by directors

In accordance with Section 148(2) of the Companies Act 1993, the Board has received disclosures from the Directors named below of acquisitions or disposals of relevant interests in the Company between 1 August 2015 and 31 July 2016, the details of those dealings were entered in the Company's interests register. The particulars of such disclosures are:

DIRECTOR	NATURE OF INTEREST	SHARES ACQUIRED / (SOLD)	CONSIDERATION	DATE
Xavier Simonet	Beneficial	13,810	AUD $1.30	8/10/2015

Subsidiary company directors

Section 211(2) of the Companies Act 1993 requires the Company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by Directors and former Directors, and particulars of entries in the interests registers made during the year ended 31 July 2016.

No subsidiary has Directors who are not full-time employees of the Group.

The remuneration and other benefits of such employees (received as employees) totalling $100,000 or more during the year ended 31 July 2016, are included in the relevant bandings for remuneration disclosed at the beginning of the "Statutory Information" section of this annual report.

No employee of the Group appointed as a Director of Kathmandu Holdings Limited or its subsidiaries receives or retains any remuneration or other benefits in their capacity as a Director.

The persons who held office as Directors of subsidiary companies at 31 July 2016, and those who ceased to hold office during the year ended 31 July 2016, are as follows:

Milford Group Holdings Limited
Reuben Casey, Xavier Simonet, Mark Todd (resigned 25 September 2015)

Kathmandu Limited
Reuben Casey, Xavier Simonet, Mark Todd (resigned 25 September 2015)

Kathmandu Pty Limited
Paul Stern, Reuben Casey, Xavier Simonet, Mark Todd (resigned 25 September 2015)

Kathmandu (U.K.) Limited
Reuben Casey, Xavier Simonet, Mark Todd (resigned 25 September 2015)

Disclosure of interests by directors

In accordance with Section 140(2) of the Companies Act 1993, the Directors named below have made a general disclosure of interest, by a general notice disclosed to the Board and entered in the Company's interests register. General notices given by Directors which remain current as at 31 July 2016 are as follows:

DAVID KIRK

TradeMe Group Limited	Chairman
Foodshare Limited	Chairman
Standard Media Index Limited	Chairman
Bailador Technology Investments Limited	Chairman
Sydney Festival Limited	Chairman
Rezdy Pty Limited	Chairman
Bailador Investment Management Pty Limited	Director
Forsyth Barr Group Limited	Director
NZ Performance Horses	Director
Online Ventures Pty Limited (trading as SiteMinder)	Director
Viocorp International Limited	Director
David Kirk Pty Limited	Director
Kirk Family Trust Pty Limited	Director
Ocean Beach Wilderness Property Limited	Director

JOHN HARVEY

New Zealand Opera Limited	Chairman
Stride Property Limited (formerly DNZ Property Fund Limited)	Director
Port Otago Limited	Director
Heartland Bank Limited	Director
Ballance Agri-Nutrients Limited	Director
Resource Coordination Partnership Limited	Advisor to the Board

SANDRA MCPHEE

Fairfax Media Limited	Director
JP Morgan Advisory Council	Member
St Vincents and Mater Health Sydney Community Advisory Council	Chairman
NSW Public Service Commission Advisory Board	Member
Australian Public Service Commission	Advisor

JOHN HOLLAND

Southbase Construction Limited	Chairman
Carter Group	Consultant
Chapman Tripp	Consultant
The Court Theatre Foundation	Trustee

CHRISTINE CROSS

Sonae Group plc	Director
Plantasjen ASA	Director
Brambles Limited	Director
Fenwick Limited	Director
Hilton Food Group plc	Director
Coca Cola European Partners plc	Director
Warburg Pincus LLC	Retail Advisor
Apax Private Equity	Retail Advisor

Directors' and officers' insurance and indemnity

The Group has arranged, as provided for under the Company's Constitution, policies of Directors' and Officers' Liability Insurance which, with a Deed of Indemnity entered into with all Directors, ensures that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors. Certain actions are specifically excluded, for example, the incurring of penalties and fines which may be imposed in respect of breaches of the law.

Use of company information

There were no notices from Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise have been available to them.

Group structure

Kathmandu Holdings Limited owns 100% of the following companies:

Milford Group Holdings Limited
Kathmandu Limited
Kathmandu Pty Limited
Kathmandu (UK) Limited

Directors' details

David Kirk	Chairman, Non-Executive Director
Xavier Simonet	Managing Director and Chief Executive Officer
John Harvey	Non-Executive Director
Christine Cross	Non-Executive Director
John Holland	Non-Executive Director
Sandra McPhee	Non-Executive Director

Executives' details

Xavier Simonet	Chief Executive Officer

DIRECTORY

The details of the Company's principal administrative and registered office in New Zealand is:

223 Tuam Street
Christchurch Central
PO Box 1234
Christchurch 8011

Share registry

In New Zealand:	Link Market Services (LINK)
Physical Address:	Level 11, Deloitte Centre, 80 Queen Street, Auckland 1010 New Zealand
Postal Address:	PO Box 91976, Auckland, 1142 New Zealand
Telephone:	+64 9 375 5999
Investor enquiries:	+64 9 375 5998
Facsimile:	+64 9 375 5990
Internet address:	www.linkmarketservices.co.nz
In Australia:	Link Market Services (LINK)
Physical Address:	Tower 4, Collins Square 727 Collins Street Melbourne, VIC 3008 Australia
Postal Address:	Locked Bag A14 Sydney, South NSW 1235 Australia
Telephone:	+61 1300 554 474
Investor enquiries:	+61 1300 554 474
Facsimile:	+61 2 9287 0303
Internet address:	www.linkmarketservices.com.au

Stock exchanges

The Company's shares are listed on the NZX and the ASX.

Incorporation

The Company is incorporated in New Zealand.

STORE LOCATIONS

AUSTRALIA kathmandu.com.au

VIC
Ballarat
Bendigo
Blackburn
Camberwell
Chadstone Inner
Chadstone Outer
Doncaster
Emporium
Essendon DFO Outlet Store
Fitzroy
Fountain Gate
Frankston
Geelong
Hampton East
Highpoint
Knox
Melbourne (Elizabeth Street)
Moonee Ponds
Moorabbin DFO Outlet Store
Northland
Nunawading Outlet Store
Prahran (Chapel Street)
Richmond
Shepparton
Smith Street Outlet Store
South Wharf DFO Outlet Store
Southland
Spencer Street Outlet Store
The Glen
Traralgon
Uni Hill Outlet Store
Warrnambool
Watergardens
Werribee

NSW
Albury
Birkenhead Point Outlet Store
Bondi Junction
Burwood
Byron Bay
Castle Towers
Charlestown
Chatswood
Coffs Harbour
Cronulla
Eastgardens
Erina Fair
Hornsby
Macarthur
Macquarie
Miranda
Newcastle
Orange
Parramatta
Penrith
Sydney City (Kent Street)
Sydney City (Pitt Street)
Redyard (Auburn)
Rouse Hill
Shellharbour
Tamworth
The Rocks
Tuggerah
Wagga Wagga
Warringah
Wetherill Park
Wollongong

SA
Adelaide Harbour Town Outlet Store
Adelaide (Rundle Street)
Adelaide (Rundle Mall)
Glenelg
Marion
Tea Tree
West Lakes

ACT
Belconnen
Canberra Centre
Canberra Outlet Store
Woden

QLD
Brisbane City
Cairns
Carindale
Chermside
Fortitude Valley
Gold Coast Harbour Town
Hervey Bay
Indooroopilly
Jindalee Outlet Store
Kawana
Mackay
Mt Gravatt
Pacific Fair (Broadbeach)
Robina
Rockhampton
Southport
Toowoomba
Townsville

TAS
Devonport
Hobart (Salamanca Square)
Hobart CBD (Elizabeth Street)
Launceston

WA
Belmont
Bunbury
Carousel
Cockburn
Cottesloe
Fremantle
Innaloo
Joondalup
Morley
Perth CBD
Perth Harbourtown Outlet Store
Whitford

NT
Casuarina

NEW ZEALAND kathmandu.co.nz

NORTH ISLAND
Albany
Auckland (Queen Street)
Auckland (Victoria Street)
Botany
Broadway
Coastlands
Gisborne
Hamilton
Hastings
Lyall Bay
Manukau
Masterton
Napier
New Plymouth
Onehunga Outlet Store
Otaki Outlet Store
Palmerston North
Petone
Pukekohe
Rotorua
St Lukes
Sylvia Park
Takapuna
Taupo
Tauranga (Bayfair)
Tauranga CBD
Tauranga (Fraser Cove)
Te Rapa
Waitakere
Wanganui
Whakatane
Whangarei
Wellington
Westgate
Willis Street Outlet Store

SOUTH ISLAND
Ashburton
Blenheim
Christchurch (Madras Street)
Dunedin
Invercargill
Nelson
Papanui
Queenstown
Riccarton Outlet Store
The Palms
Timaru
Tower Junction

UNITED KINGDOM kathmandu.co.uk

London (High Street Kensington)

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