Kathmandu Holdings Limited

Preliminary Full Year Report

For the year ending 31 July 2013

Contents

Appendix 4E

Kathmandu Holdings Limited

(ARBN 139 836 918)
(Incorporated in New Zealand)

For the year ending 31 July 2013

Reporting Period

Reporting Period:	12 months ending 31 July 2013
Previous Reporting Period:	12 months ending 31 July 2012

Results for Announcement to the Market

		$NZ'000
1. Revenues from ordinary activities	Up 10.6% to	383,983
2. Profit from ordinary activities after tax attributable to members	Up 26.7% to	44,174
3. Net profit for the period attributable to members	Up 26.7% to	44,174
4. Dividends	Amount per Security **NZ cents**	Franked amount per security **NZ cents**
Interim Dividend (paid 18 June 2013)	3.0	3.0
Final Dividend	9.0	9.0
5. The record date for determining entitlements to the final dividend	12 November 2013	
6. For commentary on the results refer to the following Media Announcement.		

Financial Information

The appendix 4E should be read in conjunction with the following consolidated financial statements for the year ended 31 July 2013, specifically:

Dividends – Ordinary Shares

Dividends	Amount per Security **NZ cents**	Franked amount per security **NZ cents**
Interim Dividend	3.0	3.0
Final Dividend	9.0	9.0
The record date for determining entitlements to the final dividend		12 November 2013
Final Dividend payment date:		22 November 2013

There is no foreign sourced dividend or distribution included.

Dividend reinvestment plan

Not applicable.

Net Tangible Assets per Security

	2013 **NZ $**	**2012** **NZ $**
Net tangible assets per security	0.30	0.15

Entities over which control has been gained or lost

Control has not been gained or lost in relation to any entity during the period.

Details of associates and joint venture entities

Not applicable.

Other significant information

Not applicable.

Accounting Standards

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

Commentary on results for the period

Refer to media announcement and consolidated financial statements following.

Information on Audit

The report is based on financial statements which have been audited. The audit report, which is unqualified, is on page 47 of the financial statements.

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KATHMANDU HOLDINGS LIMITED (ASX/NZX: KMD)

ASX/NZX/Media Announcement
24 September 2013

Kathmandu Holdings announces FY2013 full year results:

- **Sales up $36.9m (10.6%) to NZ$384.0m,**
- **EBIT up 11.2% to NZ$63.4m,**
- **NPAT up 26.6% to NZ$44.2m,**
- **Earnings per share 22.1 cps, up 4.7c**

Final dividend 9.0 cents per share, full year payout of 12.0 cents per share (up 20%).

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced earnings before interest and tax (EBIT) of NZ$63.4 million, for the year ended 31 July 2013, an increase of $6.4 million compared with the prior corresponding period. Net profit after tax (NPAT) increased from NZ$34.9 million to NZ$44.2 million for the same period.

RESULTS OVERVIEW

	NZ $m		Growth	
Year ending 31 July 2013	**FY2013**	**FY2012**	**NZ $m**	**%**
Sales	384.0	347.1	36.9	10.6%
Gross Profit	242.0	219.5	22.5	10.3%
EBITDA	74.0	66.5	7.5	11.3%
EBIT	63.4	57.0	6.4	11.2%
NPAT [1]	44.2	34.9	9.3	26.6%

1. FY2013 NPAT includes $3.1m taxation expense benefit from Australian intercompany loan revaluation.

Kathmandu Holdings Limited Chief Executive Officer, Mr. Peter Halkett said “this was a good result given the difficult retail environment. It was pleasing to achieve positive same store sales growth over the year. Operating expenses reduced as a % of sales compared to FY2012, which also contributed to earnings growth.”

For the full year same store sales growth was 5.6% at comparable exchange rates (1.8% at actual exchange rates). The company opened seventeen new permanent stores, eight of these in the second half. Online sales growth of 55% contributed over 4% of total sales.

SALES, STORE NUMBERS AND GROSS PROFIT MARGIN

Year ending 31 July 2013	NZ $m FY2013	% of Total	Total sales growth %*[1]	Same store growth %	FY2013 # new stores
Sales – Australia	241.1	62.8%	19.5%	6.7%	14
Sales – New Zealand	137.0	35.7%	8.6%	4.4%	2
Sales – United Kingdom	5.9	1.5%	(12.2%)	(6.5%)	1
Total	**384.0**	**100.0%**	**10.6%**	**5.6%**	**17**

[1] Calculated on local currency sales results (not affected by year-on-year exchange rate variation)

Australia and New Zealand both performed strongly, delivering positive comparable sales growth on the previous corresponding period.

Permanent stores open 31 July 2013	FY2013	FY2012
Australia	87	72
New Zealand	44	42
United Kingdom	5	6
Total Group	136	120

In the second half year Kathmandu opened eight new stores (following nine in the first half) and closed two stores in the United Kingdom as part of the re-organisation of that business:

- Australia: Eastgardens, Penrith (Sydney), The Glen, Nunawading (Melbourne) and Hobart CBD.
- New Zealand: Pukekohe, Westgate (Auckland).
- United Kingdom: Kensington High Street (London) opened. Closed Berners St (London) and Brighton.

During the year four stores were relocated; Richmond (Melbourne) and Perth in Australia, Nelson and Invercargill in New Zealand. Major refurbishments were completed in the Highpoint, Knox City (Melbourne), Bondi (Sydney) and Covent Garden (London) stores.

In the first half of FY2014, seven new stores are confirmed, six of these in Australia:
- West Lakes (Adelaide);
- Northland, Uni Hill, Emporium (Melbourne); and
- Jindalee, Indooroopilly (Brisbane)

The first New Zealand small format store opened at St Lukes in Auckland last week.

The new online platform launched early in FY2013 has supported further strong growth in this sales channel. “We expect the growth opportunities available to us online to be enhanced further as we offer an improved customer experience by utilising our CRM capabilities” said Peter Halkett. He further commented that “sales growth in the UK and other markets globally will be focused on driving brand awareness in the online channel, supported by launching the Kathmandu brand in web based marketplaces such as Amazon, where Kathmandu UK has just launched a selected product range."

Year ending 31 July 2013	FY2013	FY2012
Gross profit margin %	63.0%	63.2%

Gross profit margin remained within Kathmandu's target range of 62% to 64%. Margins were slightly reduced in Australia (down 60 bps) and marginally improved in New Zealand (up 10bps). Margins in the United Kingdom were lower than FY2012 by 200 bps due to the impact of clearance activity associated with store closures.

OPERATING COSTS

Operating Expenses	NZ $m & % of Sales	
(excluding depreciation)	**FY2013**	**FY2012**
Rent	43.8m	39.6m
% of Sales	*11.4%*	*11.4%*
Other operating costs	124.2m	113.4m
% of sales	*32.4%*	*32.7%*
Total	**168.0m**	**153.0m**
% of sales	*43.8%*	*44.1%*

Kathmandu's operating expenses decreased by 30 bps as a % of sales. Expenses in the second half year were consistent with the prior comparable period as a % of sales. Although retail rent increased as a % of sales, this was offset by leverage achieved in warehouse and office rent costs, and the effect of exchange rate translation. Advertising and distribution costs reduced as a % of sales, whilst operating costs related to sales activity, both retail and online, increased due to continuing growth in the Australian domiciled portion of the total business.

"We were successful in reducing operating costs as a % of sales. This continues to be a key priority and we are confident Kathmandu will achieve further efficiency improvements in the future" said Mr. Halkett.

EBIT margin increased from 16.4% to 16.5% of sales. Earnings per share grew by 27.0% to 22.1 cents per share (FY2012: 17.4 cents per share).

OTHER FINANCIAL INFORMATION

Year ending 31 July 2013	NZ $m FY2013	FY2012
Capital Expenditure	17.4	21.8
Operating Cashflow	45.7	32.5
Inventories	80.0	73.3
Net Debt	40.2	51.9
Net Debt : Net Debt + Equity	12.0%	15.7%
Interim Dividend (cents per share)	3 cents	3 cents
Final Dividend proposed (cents per share)	9 cents	7 cents

The decrease in capital expenditure year on year was a combination of timing, with $2.2m of spend relating to store projects completed in FY2013 occurring in FY2012, and efficiency improvements in our store rollout programme. In addition to the seventeen permanent new stores opened in FY2013, eight stores have either been relocated or refurbished during the period. Other capital investment included reconfiguration of the Australian distribution centre and the first modules of our new retail systems platform.

Total inventories have increased by $6.7m (9.1%), with early timing of summer season deliveries contributing $2.5m of this increase.

Total net debt at 31 July decreased by 22.5% on the previous year as a result of increased operating cash flow and reduced capital expenditure. The ratio of net debt to net debt plus equity at 31 July decreased to 12.0%.

FINAL DIVIDEND

Kathmandu confirms that a final dividend of NZ 9.0 cents will be paid, bringing the total dividend payout for FY2013 to 12.0 cents (FY2012: 10.0 cents). The dividend will be fully imputed for New Zealand shareholders and fully franked for Australian shareholders.

FUTURE OUTLOOK

Peter Halkett confirmed Kathmandu's overall key growth strategies remain consistent. "We will continue to invest in our store network through opening new stores and relocating or refurbishing existing stores in Australia and New Zealand. Maximising the return on the investment made in inventory and store space remains a key focus while continuing to effectively manage operating costs." Mr. Halkett noted that "Kathmandu will continue to invest in systems infrastructure to grow our online sales, given the opportunity presented by this channel." He concluded by saying that "providing there is no deterioration in economic conditions, Kathmandu expects another solid performance in FY2014."

For further information please contact:

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KATHMANDU HOLDINGS LIMITED

FINANCIAL STATEMENTS
For the year ended 31 July 2013

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DIRECTORS' APPROVAL OF FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 JULY 2013

Authorisation for Issue

The Board of Directors authorised the issue of these Financial Statements on 24 September 2013.

Approval by Directors

The Directors are pleased to present the Financial Statements of Kathmandu Holdings Limited for the year ending 31 July 2013 on pages 4 to 46.

Director   Date 24/9/13

Director   Date 24/9/13

For and on behalf of the Board of Directors

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 JULY 2013

		Group		Parent	
	Note	**2013 NZ$'000**	**2012 NZ$'000**	**2013 NZ$'000**	**2012 NZ$'000**
Sales		383,983	347,104	-	-
Cost of sales		(141,958)	(127,559)	-	-
Gross profit		242,025	219,545	-	-
Other income		864	48	20,133	20,013
Selling expenses	4	(121,800)	(113,774)	-	-
Administration and general expenses	4	(57,700)	(48,854)	(1,941)	(1,794)
		63,389	56,965	18,192	18,219
Finance income		187	144	-	-
Finance expenses		(4,594)	(5,983)	(17)	(92)
Finance costs - net	4	(4,407)	(5,839)	(17)	(92)
Profit before income tax		58,982	51,126	18,175	18,127
Income tax (expense)/benefit	5	(14,808)	(16,274)	(45)	154
Profit after income tax		44,174	34,852	18,130	18,281
Comprehensive Income that will be recycled to the Income Statement:					
Movement in cash flow hedge reserve	20	8,376	5,746	-	-
Movement in foreign currency translation reserve	20	(18,186)	3,739	-	-
Other comprehensive income for the year, net of tax		(9,810)	9,485	-	-
Total comprehensive income for the year attributable to shareholders		34,364	44,337	18,130	18,281

Basic earnings per share	28	22.1cps	17.4cps
Diluted earnings per share	28	21.9cps	17.2cps
Weighted average basic ordinary shares outstanding ('000)	28	200,197	200,000
Weighted average diluted ordinary shares outstanding ('000)	28	202,121	203,121

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 JULY 2013

Group	Share Capital	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Share Based Payments Reserve	Retained Earnings	Total Equity
	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Balance as at 31 July 2011	**197,049**	**(9,055)**	**3,889**	**625**	**62,418**	**254,926**
Total comprehensive income	-	5,746	3,739	-	34,852	44,337
Dividends paid	-	-	-	-	(20,000)	(20,000)
Issue of share capital	249	-	-	(249)	-	-
Share Options / Performance Rights lapsed	-	-	-	(8)	8	-
Share based payment expense	-	-	-	371	-	371
Balance as at 31 July 2012	**197,298**	**(3,309)**	**7,628**	**739**	**77,278**	**279,634**
Total comprehensive income	-	8,376	(18,186)	-	44,174	34,364
Dividends paid	-	-	-	-	(20,018)	(20,018)
Issue of share capital	72	-	-	(72)	-	-
Share Options / Performance Rights lapsed	-	-	-	(53)	53	-
Share based payment expense	-	-	-	209	-	209
Balance as at 31 July 2013	**197,370**	**5,067**	**(10,558)**	**823**	**101,487**	**294,189**

Parent	Share Capital	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Share Based Payments Reserve	Retained Earnings	Total Equity
	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Balance as at 31 July 2011	**422,137**	**-**	**-**	**625**	**(13,943)**	**408,819**
Total comprehensive income	-	-	-	-	18,281	18,281
Dividends paid	-	-	-	-	(20,000)	(20,000)
Issue of share capital	249	-	-	(249)	-	-
Share Options / Performance Rights lapsed	-	-	-	(8)	8	-
Share based payment expense	-	-	-	371	-	371
Balance as at 31 July 2012	**422,386**	**-**	**-**	**739**	**(15,654)**	**407,471**
Total comprehensive income	-	-	-	-	18,130	18,130
Dividends paid	-	-	-	-	(20,018)	(20,018)
Issue of share capital	72	-	-	(72)	-	-
Share Options / Performance Rights lapsed	-	-	-	(53)	53	-
Share based payment expense	-	-	-	209	-	209
Balance as at 31 July 2013	**422,458**	**-**	**-**	**823**	**(17,489)**	**405,792**

BALANCE SHEETS
AS AT 31 JULY 2013

	Note	Group		Parent	
		2013 NZ$'000	2012 NZ$'000	2013 NZ$'000	2012 NZ$'000
ASSETS					
Current assets					
Cash and cash equivalents	7	2,345	1,811	5	26
Trade and other receivables	8	3,668	3,503	256	261
Related party receivable	9	-	-	81,944	82,885
Derivative financial instruments	10	7,887	-	-	-
Inventories	11	80,031	73,295	-	-
Current tax assets		-	-	2,589	3,113
Total current assets		93,931	78,609	84,794	86,285
Non-current assets					
Property, plant and equipment	12	43,379	41,911	-	-
Intangible assets	13	234,863	249,092	4	-
Derivative financial instruments	10	27	-	-	-
Investment in subsidiaries	14	-	-	321,234	321,234
Deferred tax	15	4,017	3,218	17	-
Total non-current assets		282,286	294,221	321,255	321,234
Total assets		376,217	372,830	406,049	407,519
LIABILITIES					
Current liabilities					
Trade and other payables	16	33,032	29,304	257	48
Derivative financial instruments	10	58	3,128	-	-
Interest bearing liabilities	17	223	-	-	-
Current tax liabilities		5,507	6,276	-	-
Total current liabilities		38,820	38,708	257	48
Non-current liabilities					
Derivative financial instruments	10	628	751	-	-
Interest bearing liabilities	17	42,580	53,737	-	-
Total non-current liabilities		43,208	54,488	-	-
Total liabilities		82,028	93,196	257	48
Net assets		294,189	279,634	405,792	407,471
EQUITY					
Contributed equity - ordinary shares	18	197,370	197,298	422,458	422,386
Reserves	20	(4,668)	5,058	823	739
Retained earnings	20	101,487	77,278	(17,489)	(15,654)
Total equity		294,189	279,634	405,792	407,471

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 JULY 2013

	Note	Group 2013 NZ$'000	Group 2012 NZ$'000	Parent 2013 NZ$'000	Parent 2012 NZ$'000
Cash flows from operating activities					
Cash was provided from:					
Receipts from customers		384,515	345,974	-	-
Dividends received		-	-	20,018	20,000
Income tax received		-	-	462	257
Interest received		50	131	-	-
		384,565	346,105	20,480	20,257
Cash was applied to:					
Payments to suppliers and employees		315,892	291,626	1,415	1,567
Income tax paid		18,411	16,002	-	-
Interest paid		4,586	5,949	-	-
		338,889	313,577	1,415	1,567
Net cash inflow from operating activities	6	45,676	32,528	19,065	18,690
Cash flows from investing activities					
Cash was provided from:					
Proceeds from sale of property, plant and equipment		10	32	-	-
		10	32	-	-
Cash was applied to:					
Purchase of property, plant and equipment	12	14,819	17,868	-	-
Purchase of intangibles	13	2,600	3,985	7	-
		17,419	21,853	7	-
Net cash (outflow) from investing activities		(17,409)	(21,821)	(7)	-
Cash flows from financing activities					
Cash was provided from:					
Proceeds of loan advances		96,225	206,226	941	1,331
		96,225	206,226	941	1,331
Cash was applied to:					
Dividends paid		20,018	20,000	20,018	20,000
Repayment of loan advances		103,758	199,040	-	-
		123,776	219,040	20,018	20,000
Net cash inflow / (outflow) from financing activities		(27,551)	(12,814)	(19,077)	(18,669)
Net increase / (decrease) in cash held		716	(2,107)	(19)	21
Opening cash and cash equivalents		1,811	3,574	26	5
Effect of foreign exchange rates		(182)	344	(2)	-
Closing cash	7	2,345	1,811	5	26

CONTENTS OF NOTES TO FINANCIAL STATEMENTS

1 General information

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

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

The Company is listed on the NZX and ASX.

These audited consolidated financial statements have been approved for issue by the Board of Directors on 24 September 2013.

2 Summary of significant accounting policies

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

The reporting currency used in the preparation of these consolidated financial statements is New Zealand dollars, rounded where necessary to the nearest thousand dollars.

(a) Basis of preparation

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

Entities reporting

The financial statements for the “Parent” are for Kathmandu Holdings Limited as a separate legal entity.

The consolidated financial statements for the “Group” are for the economic entity comprising Kathmandu Holdings Limited and its subsidiaries.

The Company and Group are designated as profit-oriented entities for financial reporting purposes.

Statutory base

Kathmandu Holdings Limited is a company registered under the Companies Act 1993.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Historical cost convention

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

Critical accounting estimates

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

(i) Estimated impairment of goodwill and brands

The group tests annually whether goodwill and brands have suffered any impairment in accordance with the accounting policy stated in note 2 (q) (i) & (ii). The recoverable amounts of cash-generating units have been determined based on the fair value less cost to sell calculation. These calculations require the use of estimates (note 13).

(ii) Stock obsolescence

The Group assesses the likely residual value of inventory. A stock provision is recognised for stock which is selling for less than cost. Any increase in these provisions is taken as a reduction to inventory on the balance sheet and expensed into gross profit on the income statement.

(b) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred over the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the subsidiaries' operations are measured using the currency of the primary economic environment in which it operates ('functional currency'). The financial statements are presented in New Zealand dollars, which is the Company's functional currency and Group's presentation currency.

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

(ii) Group companies

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

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

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

All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Revenue recognition

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

(i) Sales of goods

Sales of goods are recognised when a Group entity has delivered a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of sale (excluding GST), including credit card fees payable for the transaction. Such fees are included in selling expenses.

(ii) Sales of services

Management fees are recognised in the accounting period in which the services are rendered.

(iii) Interest income

Interest income is recognised on a time-portion basis using the effective interest method.

(iv) Dividend income

Dividend income is recognised when the right to receive payment is established.

(f) Current and deferred income tax

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

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

(g) Goods and Services Tax (GST)

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

(h) Leases

The Group is the lessee

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

(i) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life, including goodwill, are not subject to amortisation and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

The collectability of trade receivables is reviewed on an 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(m) Investments and other financial assets

The Group classifies its investments in the following categories: loans and receivables, and financial assets at fair value through profit or loss. The classification depends on the purpose for which the investments were acquired. Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Management determines the classification of its investments at the initial recognition and re-evaluates this designation at every reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are presented in the income statement, except for foreign exchange movements on monetary assets, which are recognised in the income statement within 'finance costs – net'. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(n) Derivatives

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 either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an 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.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit and loss over the period of maturity.

(ii) Cash flow hedge

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

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

(iii) Derivatives that do not qualify for hedge accounting

Where derivative instruments do not qualify for hedge accounting or hedge accounting has not been adopted, changes in the fair value of these derivative instruments are recognised immediately in the income statement within 'finance costs – net'.

(o) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and carrying value of payables are assumed to approximate their fair values.

(p) Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Leasehold Improvements	8 – 50 %
Office, Plant and Equipment	8 – 80 %
Furniture and Fittings	6 – 60 %
Computer Equipment	6 – 67%
Motor Vehicles	15 – 30%

The assets' residual value and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Capital work in progress is not depreciated until available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

(q) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the assets and liabilities of the acquiree. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

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

(ii) Brand

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

(iii) Software costs

Software costs have a finite useful life. Software costs are capitalised and written off over the useful economic life using diminishing value method and rates of 10-60%.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid by the 30th of the month following recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(s) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(t) Borrowings

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

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

(u) Share Capital

Ordinary shares are classified as equity.

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

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(v) Employee benefits

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

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

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

(iii) Equity settled share option plan

The Employee Share Option Plan allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense in the Income Statement with a corresponding increase in the employee share based payments reserve. The fair value is measured at grant date and spread over the vesting periods. The fair value of the options granted is measured using the Monte Carlo simulation approach, taking into account the terms and conditions upon which the options are granted. When options are exercised the amount in the share option reserve relating to those options, together with the exercise price paid by the employee, is transferred to share capital. When any vested options lapse, upon employee termination or unexercised options reaching maturity, the amount in the share based payments reserve relating to those options is transferred to retained earnings.

(iv) 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 Income Statement 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.

(w) Dividends

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

(x) Cash Flow Statement

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

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

(y) Changes in accounting policies

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

3 Standards, interpretations and amendments to published standards

The following new standards and amendments to standards were applied during the period;

NZ IAS 1 Amendments Presentation of Items of Other Comprehensive Income (effective 1 July 2012):
The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period.

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

NZ IFRS 9: Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2015)
This standard replaces the parts of NZ IAS 39 Financial Instruments: Recognition and Measurement that relates to the classification and measurement of financial instruments.

All financial assets are required to be classified into two measurement categories: at fair value and at amortised cost. The determination is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

For financial liabilities, the standard retains most of the NZ IAS 39 requirements. An additional presentational requirement has been added for liabilities designated at fair value through profit and loss. Where the fair value option is taken, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income.

NZ IFRS 10 Consolidated Financial Statements (effective 1 January 2013), revised NZ IAS 27 Separate Financial Statements

NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 Consolidated and Separate Financial Statements, and NZ IFRIC 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

NZ IAS 27 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard by the group and parent entity will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the parent's investments in the separate parent entity financial statements.

NZ IFRS 13 Fair Value Measurement (effective 1 January 2013)

NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements.

The Group does not intend to adopt the new standards before their operative date, which means that all of the above new standards would be first applied in the annual reporting period ending 31 July 2014, with the exception of NZ IFRS 9 that will be applied in the annual period ending 31 July 2016.

4 Income and expenses

	Group		Parent	
	2013	2012	2013	2012
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Profit / (loss) before income tax includes the following specific (income) and expenses:				
Income				
Dividends received	-	-	(20,018)	(20,000)
Expenses				
Depreciation				
- Leasehold improvements	5,225	4,986	-	-
- Office, plant and equipment	537	485	-	-
- Furniture and fittings	2,544	2,020	-	-
- Computer equipment	496	421	-	-
- Motor vehicles	12	20	-	-
Total depreciation	8,814	7,932	-	-
Amortisation				
- Software	1,795	1,599	3	-
Total amortisation	1,795	1,599	3	-
(Gain) / Loss on sale of property, plant and equipment	955	891	-	-
Rental and operating lease expenses	43,801	39,595	-	-
Directors' fees	717	714	717	714
Employee entitlements:				
- Wages, salaries and other short term benefits	68,719	61,795	-	-
- Employee share based remuneration	209	371	209	371
Finance Costs				
Interest income	(50)	(131)	-	-
Interest expense	3,868	4,274	-	-
Other finance costs	607	1,587	-	-
Net exchange (gain) / loss on foreign currency borrowings	(18)	109	17	92
	4,407	5,839	17	92

Remuneration of auditors is detailed in note 22.
Amortisation expenditure is included in administration and general expenses in the income statement.

5 Income tax expense

	Group 2013 NZ$'000	Group 2012 NZ$'000	Parent 2013 NZ$'000	Parent 2012 NZ$'000
Income statement				
Current income tax charge	18,826	17,053	62	(154)
Deferred income tax charge / (credit) (refer note 15)	(4,018)	(779)	(17)	-
Income tax charge / (credit) reported in income statement	14,808	16,274	45	(154)
Reconciliation of effective tax charge				
Profit before income tax	58,982	51,126	18,175	18,127
Income tax calculated at 28% (2012: 28%)	16,515	14,315	5,089	5,075
Adjustments to taxation:				
Adjustments due to different rate in different jurisdictions	530	654	-	-
Non-taxable income	-	-	(5,606)	(5,600)
Expenses not deductible for tax purposes	630	946	69	31
Effect of change in corporate tax rate	-	-	-	-
Utilisation of tax losses by group companies	-	-	-	-
Tax expense transferred to foreign currency translation reserve	(2,929)	464	-	-
Adjustments in respect of prior years	62	(105)	493	340
Income tax charge / (credit) reported in income statement	14,808	16,274	45	(154)

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

	Note	Group 2013 NZ$'000	Group 2012 NZ$'000	Parent 2013 NZ$'000	Parent 2012 NZ$'000
Movement in cash flow hedge reserve before tax		11,203	6,818	-	-
Tax credit / (charge) relating to cash flow hedge reserve		(2,827)	(1,072)	-	-
Movement in cash flow hedge reserve after tax		8,376	5,746	-	-
Foreign currency translation reserve before tax		(20,723)	4,159	-	-
Tax credit / (charge) relating to foreign currency translation reserve		2,537	(420)	-	-
Movement in foreign currency translation reserve after tax		(18,186)	3,739	-	-
Total other comprehensive income before tax		(9,520)	10,977	-	-
Total tax credit / (charge) on other comprehensive income		(290)	(1,492)	-	-
Total other comprehensive income after tax		**(9,810)**	**9,485**	**-**	**-**
Current tax		2,929	(464)	-	-
Deferred tax	15	(3,219)	(1,028)	-	-
Total tax credit / (charge) on other comprehensive income		**(290)**	**(1,492)**	**-**	**-**

Unrecognised tax losses

The group has estimated tax losses to carry forward from Kathmandu (U.K.) Limited of £8,186,293 (NZ$15,387,769) (2012: £7,290,184 (NZ$14,350,756)) which can be carried forward to be offset against future profits generated within the UK.

Imputation credits	**Group**		**Parent**	
	2013	**2012**	**2013**	**2012**
	NZ$'000	**NZ$'000**	**NZ$'000**	**NZ$'000**
Imputation credits available for use in subsequent reporting periods based on a tax rate of 28%	4,527	3,554	(1)	(1)

The above amounts represent the balance of the imputation account as at the end of July 2013, 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 2013 is A$5,794,857 (2012: A$3,369,445).

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

	Group		**Parent**	
	2013	**2012**	**2013**	**2012**
	NZ$'000	**NZ$'000**	**NZ$'000**	**NZ$'000**
Profit after taxation	44,174	34,852	18,130	18,281
Movement in working capital:				
(Increase) / decrease in trade and other receivables	(332)	(1,130)	5	(69)
(Increase) / decrease in inventories	(11,915)	(18,473)	-	-
Increase / (decrease) in trade and other payables	6,348	7,887	210	6
Increase / (decrease) in tax liability	(243)	(558)	525	101
	(6,142)	(12,274)	740	38
Add non cash items:				
Depreciation	8,814	7,932	-	-
Amortisation of intangibles	1,795	1,599	3	-
Revaluation of derivative financial instruments	(3,053)	(1,131)	-	-
(Increase) / decrease in deferred taxation	(1,076)	288	(17)	-
Employee share based remuneration	209	371	209	371
Loss on sale of property, plant and equipment	955	891	-	-
	7,644	9,950	195	371
Cash inflow from operating activities	45,676	32,528	19,065	18,690

7 Cash and cash equivalents

	Group		Parent	
	2013 NZ$'000	2012 NZ$'000	2013 NZ$'000	2012 NZ$'000
Cash on hand	165	167	-	-
Cash at bank	2,166	1,455	5	26
Short term deposits	14	189	-	-
	2,345	1,811	5	26

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

NZD	527	487	5	26
AUD	1,464	211	-	-
GBP	270	927	-	-
USD	84	177	-	-
EUR	-	9	-	-
	2,345	1,811	5	26

8 Trade and other receivables

	Group		Parent	
	2013 NZ$'000	2012 NZ$'000	2013 NZ$'000	2012 NZ$'000
Trade receivables	125	206	-	-
Sundry debtors and prepayments	3,543	3,297	256	261
	3,668	3,503	256	261

Bad and doubtful trade receivables

The Group has recognised a loss of $0 (2012: $0) in respect of bad and doubtful trade receivables during the year ended 31 July 2013.

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

NZD	2,076	1,565	256	261
AUD	1,019	1,241	-	-
GBP	573	697	-	-
	3,668	3,503	256	261

9 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 $84,863 (2012: $163,683) were paid to Chapman Tripp for services provided (primarily related to property leases). John Holland is both a Director of Kathmandu Holdings Limited and a Partner of Chapman Tripp. As at 31 July 2013, there were outstanding legal fees of $4,989 (2012: $20,149).

During the year, operating lease costs of $229,282 (2012: $223,054) were paid to Chalmers Properties Limited, a subsidiary of Port Otago Limited. John Harvey is a Director of both of these companies.

All subsidiaries within the group (note 14) are related parties. No amounts owed to related parties have been written off or forgiven during the year.

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

Material amounts outstanding between the parent and subsidiaries at year end were:

- Loans from the parent to subsidiaries (Kathmandu Limited) $81,944,045 (2012: $82,884,844).
- Loans to the parent from subsidiaries $0 (2012: $0).

(a) Key Management Personnel

	Group		Parent	
	2013	2012	2013	2012
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Salaries	3,124	3,193	-	-
Other short-term employee benefits	1,187	81	-	-
Employee performance rights	202	204	202	204
Employee share option plans	7	67	7	67
	4,520	3,545	209	271

Key management personnel include the following employees:

Executive Directors:

- Chief Executive Officer
- Chief Financial Officer

Other Key Management Personnel:

- GM, Product
- GM, Marketing
- GM, Business Development & Sustainability
- GM, Supply Chain
- Chief Information Officer
- GM, Retail (Australia)
- GM, Retail (New Zealand)

(b) Non-Executive Directors

	Group		Parent	
	2013	2012	2013	2012
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Total directors fees	717	713	717	713

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

- James Strong (Deceased 4 March 2013)
- Sandra McPhee
- John Harvey (Acting Chairman from 4 March 2013)
- John Holland
- Christine Cross

(c) Remuneration Detail (as referred to in the Remuneration Report)

2013	Short-Term Benefits			Post-employment benefits	Share based payments				
Name	Cash Salary and fees $	Cash bonus $	Non-Monetary benefits $	Super-annuation $	Share Options $	Performance Rights $	Equity related %	Total $	Performance related %
Non-Executive Directors									
James Strong	159,136	-	-	-	-	-	0.0%	159,136	0.0%
John Harvey	191,984	-	-	-	-	-	0.0%	191,984	0.0%
John Holland	140,139	-	-	-	-	-	0.0%	140,139	0.0%
Sandra McPhee	140,139	-	-	-	-	-	0.0%	140,139	0.0%
Christine Cross	85,229	-	-	-	-	-	0.0%	85,229	0.0%
Total Non-Executive Directors	**716,627**	**-**	**-**	**-**	**-**	**-**	**0.0%**	**716,627**	**0.0%**
Executive Directors									
Peter Halkett[1]	831,975	100,000	680,998	45,738	3,689	117,508	6.8%	1,779,908	5.6%
Mark Todd	483,171	80,000	3,551	11,261	1,057	58,977	9.4%	638,017	12.5%
Total Executive Directors	**1,315,146**	**180,000**	**684,549**	**56,999**	**4,746**	**176,485**	**7.5%**	**2,417,925**	**7.4%**
Other Key Management Personnel	**1,686,329**	**304,502**	**18,323**	**65,475**	**1,769**	**26,006**	**1.3%**	**2,102,404**	**14.5%**
Total	**3,718,102**	**484,502**	**702,872**	**122,474**	**6,515**	**202,491**	**4.0%**	**5,236,956**	**9.3%**

1. This includes amounts paid by the Company in settling the obligations arising from a change in the primary tax residency (from New Zealand to Australia) for the period from May 2011 to July 2013. The amounts involved are primarily non-monetary benefits, being net amounts paid or payable directly to the relevant taxation authorities as a result of the prior taxation residency being corrected.

2012	Short-Term Benefits			Post-employment benefits	Share based payments				
Name	Cash Salary and fees $	Cash bonus $	Non-Monetary benefits $	Super-annuation $	Share Options $	Performance Rights $	Equity related %	Total $	Performance related %
Non-Executive Directors									
James Strong	277,534	-	-	-	-	-	0.0%	277,534	0.0%
John Harvey	145,182	-	-	-	-	-	0.0%	145,182	0.0%
John Holland	145,182	-	-	-	-	-	0.0%	145,182	0.0%
Sandra McPhee	145,182	-	-	-	-	-	0.0%	145,182	0.0%
Total Non-Executive Directors	**713,080**	**-**	**-**	**-**	**-**	**-**	**0.0%**	**713,080**	**0.0%**

Executive Directors									
Peter Halkett	850,981	-	59,483	-	38,877	110,363	14.1%	1,059,704	0.0%
Mark Todd	499,753	-	3,374	13,465	11,144	48,929	10.4%	576,665	0.0%
Total Executive Directors									
	1,350,734	**-**	**62,857**	**13,465**	**50,021**	**159,292**	**12.8%**	**1,636,369**	**0.0%**
Other Key Management Personnel									
	1,752,924	**-**	**18,581**	**75,713**	**16,536**	**44,621**	**3.2%**	**1,908,375**	**0.0%**
Total	**3,816,738**	**-**	**81,438**	**89,178**	**66,557**	**203,913**	**6.4%**	**4,257,824**	**0.0%**

10 Derivative financial instruments

	Group		Parent	
	2013 NZ$'000	**2012 NZ$'000**	**2013 NZ$'000**	**2012 NZ$'000**
Asset				
Interest rate swaps - cash flow hedge	27	-	-	-
Foreign exchange contracts - cash flow hedge	7,887	-	-	-
	7,914	-	-	-
Less non-current portion:				
Interest rate swaps - cash flow hedge	27	-	-	-
Current portion	7,887	-	-	-
Liabilities				
Interest rate swaps - cash flow hedge	686	990	-	-
Foreign exchange contracts - cash flow hedge	-	2,889	-	-
	686	3,879	-	-
Less non-current portion:				
Interest rate swaps - cash flow hedge	628	751	-	-
Current portion	58	3,128	-	-

The above table shows the Group's financial derivative holdings at year end. Refer to note 2(o) for information on the calculation of fair values.

(a) Interest rate swaps - cash flow hedge

Interest rate swaps are to exchange a floating rate of interest for a fixed rate of interest. The objective of the transaction is to hedge the core 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 $44,971,623 (2012: $45,940,337). The fixed interest rates range between 3.05% and 5.71% (2012: 3.99% and 5.71%). Refer note 26 for timing of expected cash flows relating to interest rate swaps.

(b) Foreign exchange contracts - cash flow hedge

The objective of these contracts is to hedge highly probable anticipated foreign currency purchases against currency fluctuations. These contracts are timed to mature when import purchases are scheduled for payment. The notional amount of foreign exchange contracts amount to US$90,700,000, NZ$107,499,336 (2012: US$76,750,000, NZ$99,138,128).

No material hedge ineffectiveness for interest rate swaps or foreign exchange contracts exists as at balance date (2012: Nil).

11 Inventories

	Group 2013 NZ$'000	Group 2012 NZ$'000	Parent 2013 NZ$'000	Parent 2012 NZ$'000
Trading stock	64,597	60,391	-	-
Goods in transit	15,434	12,904	-	-
	80,031	73,295	-	-

Inventory has been reviewed for stock selling below cost and no provision (2012: $0) has been made.

12 Property, plant and equipment

Group	Leasehold improvement $'000	Office, plant & equipment $'000	Furniture & fittings $'000	Computer equipment $'000	Motor vehicles $'000	Total $'000
Year ended 31 July 2012						
Opening net book value	23,066	1,405	5,962	2,299	90	32,822
Additions	12,407	517	4,077	859	8	17,868
Disposals	(535)	(7)	(779)	(19)	(20)	(1,360)
Depreciation charge	(4,986)	(485)	(2,020)	(421)	(20)	(7,932)
Exchange differences	394	19	85	14	1	513
Closing net book value	30,346	1,449	7,325	2,732	59	41,911
As at 31 July 2012						
Cost	49,362	4,441	14,070	8,379	252	76,504
Accumulated depreciation	(19,016)	(2,992)	(6,745)	(5,647)	(193)	(34,593)
Closing net book value	30,346	1,449	7,325	2,732	59	41,911
Year ended 31 July 2013						
Opening net book value	30,346	1,449	7,325	2,732	59	41,911
Additions	5,633	1,224	7,056	906	-	14,819
Disposals	(985)	(169)	(350)	(38)	(7)	(1,549)
Depreciation charge	(5,225)	(537)	(2,544)	(496)	(12)	(8,814)
Exchange differences	(2,390)	(82)	(438)	(75)	(3)	(2,988)
Closing net book value	27,379	1,885	11,049	3,029	37	43,379
As at 31 July 2013						
Cost	49,298	4,868	19,279	7,279	191	80,915
Accumulated depreciation	(21,919)	(2,983)	(8,230)	(4,250)	(154)	(37,536)
Closing net book value	27,379	1,885	11,049	3,029	37	43,379

13 Intangible assets

Group	Goodwill NZ$'000	Brand NZ$'000	Software NZ$'000	Total NZ$'000
Year ended 31 July 2012				
Opening net book value	75,406	167,308	971	243,685
Additions	-	-	3,985	3,985
Disposals	-	-	(9)	(9)
Amortisation	-	-	(1,599)	(1,599)
Exchange differences	-	3,018	12	3,030
Closing net book value	75,406	170,326	3,360	249,092
As at 31 July 2012				
Cost	76,677	170,326	7,801	254,804
Accumulated amortisation	(1,271)	-	(4,441)	(5,712)
Closing net book value	75,406	170,326	3,360	249,092
Year ended 31 July 2013				
Opening net book value	75,406	170,326	3,360	249,092
Additions	-	-	2,600	2,600
Disposals	-	-	-	-
Amortisation	-	-	(1,795)	(1,795)
Exchange differences	-	(14,900)	(134)	(15,034)
Closing net book value	75,406	155,426	4,031	234,863
As at 31 July 2013				
Cost	76,677	155,426	9,942	242,045
Accumulated amortisation	(1,271)	-	(5,911)	(7,182)
Closing net book value	75,406	155,426	4,031	234,863

Parent	**Goodwill NZ$'000**	**Brand NZ$'000**	**Software NZ$'000**	**Total NZ$'000**
Year ended 31 July 2012				
Opening net book value	-	-	-	-
Additions	-	-	-	-
Disposals	-	-	-	-
Amortisation	-	-	-	-
Exchange differences	-	-	-	-
Closing net book value	-	-	-	-
As at 31 July 2012				
Cost	-	-	-	-
Accumulated amortisation	-	-	-	-
Closing net book value	-	-	-	-
Year ended 31 July 2013				
Opening net book value	-	-	-	-
Additions	-	-	7	7
Disposals	-	-	-	-
Amortisation	-	-	(3)	(3)
Exchange differences	-	-	-	-
Closing net book value	-	-	4	4
As at 31 July 2013				
Cost	-	-	7	7
Accumulated amortisation	-	-	(3)	(3)
Closing net book value	-	-	4	4

Impairment tests for goodwill and brand

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

Group	**Goodwill**		**Brand**	
	2013 NZ$'000	**2012 NZ$'000**	**2013 NZ$'000**	**2012 NZ$'000**
New Zealand	28,654	28,654	51,000	51,000
Australia	46,752	46,752	104,426	119,326
	75,406	75,406	155,426	170,326

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. Growth is expected to continue as the store rollout programme (approximately fifteen stores per year) continues and like for like sales increase. Cash flows beyond five years have been extrapolated using the following key assumptions:

	2013	**2012**
Terminal growth rate	2.5%	2.5%
New Zealand CGU pre-tax discount rate	15.0%	15.2%
Australia CGU pre-tax discount rate	14.6%	14.9%
Consolidated pre-tax discount rate	14.8%	15.1%

The calculations confirmed that there was no impairment of goodwill and brand during the year (2012: 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.

14 Investment in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name of entity	**Equity holding**	
	2013	**2012**
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

Investment in subsidiaries	**2013**	**2012**
	NZ$	**NZ$**
Milford Group Holdings Limited	321,233,808	321,233,808
Kathmandu Limited	-	-
Kathmandu Pty Limited	-	-
Kathmandu (U.K.) Limited	-	-
	321,233,808	321,233,808

15 Deferred taxation

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

Group

	Tax depreciation NZ$'000	Employee obligations NZ$'000	Losses NZ$'000	Other timing differences NZ$'000	Reserves NZ$'000	Total NZ$'000
As at 31 July 2011	68	931	1	853	1,614	3,467
Charge / (credit) to the income statement	19	(94)	-	854	-	779
Charge / (credit) to other comprehensive income	-	-	-	44	(1,072)	(1,028)
As at 31 July 2012	87	837	1	1,751	542	3,218
Charge / (credit) to the income statement	125	285	-	3,608	-	4,018
Charge / (credit) to other comprehensive income	-	-	-	(392)	(2,827)	(3,219)
As at 31 July 2013	212	1,122	1	4,967	(2,285)	4,017

Parent

	Tax depreciation NZ$'000	Employee obligations NZ$'000	Losses NZ$'000	Other timing differences NZ$'000	Reserves NZ$'000	Total NZ$'000
As at 31 July 2011	-	-	-	-	-	-
Charge / (credit) to the income statement	-	-	-	-	-	-
As at 31 July 2012	-	-	-	-	-	-
Charge / (credit) to the income statement	-	-	-	17	-	17
As at 31 July 2013	-	-	-	17	-	17

Certain deferred taxation assets and liabilities have been offset. The following is the analysis of the deferred taxation balances (after offset) for financial reporting purposes:

	Group 2013 NZ$'000	Group 2012 NZ$'000	Parent 2013 NZ$'000	Parent 2012 NZ$'000
Deferred taxation assets:				
- Deferred tax asset to be recovered after more than 12 months	1,705	1,461	-	-
- Deferred tax asset to be recovered within 12 months	2,803	1,779	17	-
Deferred taxation liabilities:				
- Deferred tax liability to be recovered after more than 12 months	(342)	(1)	-	-
- Deferred tax liability to be recovered within 12 months	(149)	(21)	-	-
	4,017	3,218	17	-

Movements

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

	Group		Parent	
	2013	2012	2013	2012
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Opening balance	3,218	3,467	-	-
Income statement charge	4,018	779	17	-
Tax charged directly to equity	(3,219)	(1,028)	-	-
Closing balance	4,017	3,218	17	-

16 Trade and other payables

	Group		Parent	
	2013	2012	2013	2012
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Trade payables	7,930	10,084	43	10
Employee entitlements	6,989	3,868	-	-
Sundry creditors and accruals	18,113	15,352	214	38
	33,032	29,304	257	48

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

NZD	7,534	5,943	169	53
AUD	22,301	20,064	88	(5)
GBP	906	1,768	-	-
USD	2,291	1,529	-	-
	33,032	29,304	257	48

17 Interest bearing liabilities

	Group		Parent	
	2013	2012	2013	2012
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Current portion	223	-	-	-
Non-current portion	42,580	53,737	-	-
Total term loans	42,803	53,737	-	-

The bank loan is part of 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, both dated 19 December 2011. The loans are repayable in full on final maturity date of the facilities being 21 December 2015. 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 1.15%. 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 half. The calculations of these covenants are specified in the bank facility agreements of 19 December 2011 and have been complied with at 31 July 2013.

The current interest rates, prior to hedging, on the term loans ranged between 3.53% - 3.73% (2012: 3.59% - 4.47%).

During the year the Group entered into a 36 month loan to finance software licenses. For accounting purposes, an interest rate has been imputed on the loan. The imputed rate is within the range shown above for current interest rates on external borrowings. The loan balance at 31 July 2013 is $493,894. The loan is not repayable on demand.

	Group		Parent	
	2013	2012	2013	2012
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
The principal of interest bearing liabilities is:				
Payable within 1 year	223	-	-	-
Payable 1 to 2 years	-	-	-	-
Payable 2 to 3 years	42,580	53,737	-	-
Payable 3 to 4 years	-	-	-	-
	42,803	53,737	-	-

18 Contributed equity - ordinary shares

	Group		Parent	
	2013	2012	2013	2012
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Ordinary shares fully paid ($)	197,370	197,298	422,458	422,386
Balance at beginning of year	197,298	197,049	422,386	422,137
Issue of shares under Executive and Senior Management Long Term Incentive Plan	72	249	72	249
Balance at end of year	197,370	197,298	422,458	422,386

Number of authorised shares	Group		Parent	
	2013	2012	2013	2012
	'000	'000	'000	'000
Ordinary shares on hand at beginning of the year	200,166	200,000	200,166	200,000
Shares issued under Executive and Senior Management Long Term Incentive Plan	50	166	50	166
Ordinary shares on hand at end of the year	200,216	200,166	200,216	200,166

(a) Ordinary shares

As at 31 July 2013 there were 200,215,894 ordinary issued shares in Kathmandu Holdings Limited and these are classified as equity. 49,954 shares were issued under the "Executive and Senior Management Long Term Incentive Plan 24 November 2010" during the year ending 31 July 2013 (2012:165,940).

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

19 Employee share based remuneration

Executive Share Option Plan 16 October 2009:

On 16 October 2009 the Board approved an Executive Share Option Plan to issue options to selected senior executives and to Executive Directors. Options will vest annually in part or in full with the holder, in three tranches commencing 1 October 2010. All options not vested expire on 1 October 2013, and all options vested must be exercised within five years from date of grant. Entitlement to exercise is conditional on the Company achieving in relation to each tranche a compound total shareholder return of 15% per annum over the period of trading that is measured in relation to that tranche. Each option entitles the holder to one ordinary share in the capital of the Company. The exercise price is determined by the Board but is generally $2.1333 for New Zealand based employees and A$1.70 for Australian based employees.

During the financial year the Company issued nil options (2012: nil) to Executive Directors and senior executives. The fair value of options issued during the financial year is $0 (2012: $0). The options issued during 2010 were valued under a Monte Carlo simulation approach factoring in the total shareholder return condition using the following assumptions:

Current price at issue date	$2.14
Risk free interest rate	5.40%
Expected life (years)	5
Expected share volatility	30%

A 50% Net Profit after Tax dividend pay-out ratio was factored into the valuation of the options based on management budgets. The expected volatility was estimated based on the historical volatility of comparable listed retail businesses.

The estimated fair value for each tranche of options issued is amortised over the vesting period from the grant date. The Company has recognised a compensatory expense in the income statement of $6,515 (2012: $21,911) which represents this amortisation.

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

	2013		2012	
	Average exercise price $ per share	Options '000	Average exercise price $ per share	Options '000
Balance at beginning of year	2.1333	956	2.1333	1,074
Issued	-	-	-	-
Forfeited	-	-	2.1333	(118)
Balance at end of year	2.1333	956	2.1333	956

Share options outstanding at the end of the year have the following expiry date, exercise dates and exercise prices.

First Vesting Month	Last Vesting Month	Exercise Price	2013 '000	2012 '000
October 2010	October 2013	$2.1333	319	319
October 2011	October 2013	$2.1333	319	319
October 2012	October 2013	$2.1333	318	318
			956	956

Executive and Senior Management Long Term Incentive Plan 24 November 2010

On 24 November 2010, shareholders approved at the Annual General Meeting the establishment of an Employee Long Term Incentive Plan (LTI) 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 and Key Management Personnel

Performance rights granted to Executive Directors and six Key Management Personnel 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
11 Dec 2012	-	365,412	-	(104,403)	261,009
30 Nov 2011	221,920	-	-	-	221,920
29 Nov 2010	344,517	-	(49,954)	(64,885)	229,678
	566,437	365,412	(49,954)	(169,288)	712,607

* From 2011 Performance Rights granted to Executive Directors only.

The performance rights granted on 11 December 2012 are divided between Long Term Incentive (261,009) and Short Term Incentive (104,403) components.

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:

	2013	2012
Grant Date	11 Dec 2012	30 Nov 2011
Performance period (year ending)	31 Jul 2013	31 Jul 2012
Vesting Date	31 Jul 2015	31 Jul 2014

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$1.69 per right (2012: $2.23).

The non-market performance hurdles set for the year ending 31 July 2013 were not met and accordingly:

- no expense has been recorded in the income statement; and
- all of these rights have lapsed

Long Term Incentive performance rights will vest in three equal tranches. In each tranche 50% of the rights are subject to a relative Total Shareholder Return (TSR) hurdle and the remaining 50% are subject to an EPS growth hurdle.

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, and with market capitalisation indicatively in a range between 300% and 45% of Kathmandu Holdings Limited market capitalisation. 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	2013	2012
Tranche 1	24 months to 1 December 2014	24 months to 1 December 2013
Tranche 2	24 months to 1 December 2015	24 months to 1 December 2014
Tranche 3	24 months to 1 December 2016	24 months to 1 December 2015

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:

	2013	**2012**
Fair value of TSR rights	$158,346	$165,331
Current price at issue date	$1.95	$2.48
Risk free interest rate	2.92%	3.54%
Expected life (years)	2-4	2-4
Expected share volatility	40%	36%

The estimated fair value for each tranche of rights issued is amortised over the vesting period from the grant date. The Company has recognised a compensatory expense in the income statement of $36,925 (2012: $54,101) which represents this amortisation.

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 2010. The applicable performance periods are:

Tranche	2013 Performance Period	2012 Performance Period
Tranche 1	FY14 EPS relative to FY12 EPS	FY13 EPS relative to FY11 EPS
Tranche 2	FY15 EPS relative to FY12 EPS	FY14 EPS relative to FY11 EPS
Tranche 3	FY16 EPS relative to FY12 EPS	FY15 EPS relative to FY11 EPS

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

EPS Growth	% Vesting
< 10%	0%
>=10%, < 11%	50%
>=11%, < 12%	60%
>=12%, < 13%	70%
>=13%, < 14%	80%
>=14%, < 15%	90%
>=15%	100%

The fair value of the 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. The Company has recognised a compensatory expense in the income statement of $47,907 (2012: $78,923) which represents this amortisation.

Key Management Personnel

Performance rights granted to Key Management Personnel, 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
04 Dec 2012	-	121,156	-	(121,156)	-
30 Nov 2011	-	-	-	-	-
	-	121,156	-	(121,156)	-

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:

	2013	2012
Grant Date	04 Dec 2012	30 Nov 2011
Performance period (year ending)	31 Jul 2013	31 Jul 2012
Vesting Date	31 Jul 2015	31 Jul 2014

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$1.58 per right (2012: $2.23).

The non-market performance hurdles set for the year ending 31 July 2013 were not met and accordingly:

- no expense has been recorded in the income statement.
- all of these rights have lapsed

Senior Management

Performance rights granted to Key Management Personnel, 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
04 Dec 2012	-	259,133	-	(259,133)	-
30 Nov 2011	-	-	-	-	-
	-	259,133	-	(259,133)	-

Short Term Incentive performance rights vest:

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

The performance hurdles and vesting dates are summarised below:

	2013	2012
Grant Date	04 Dec 2012	30 Nov 2011
Performance period (year ending)	31 Jul 2013	31 Jul 2012
Vesting Date	31 Jul 2014	31 Jul 2013

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$1.70 per right (2012: $2.35).

The non-market performance hurdles set for the year ending 31 July 2013 were not met and accordingly:

- no expense has been recorded in the income statement; and
- all of these rights have lapsed.

Expenses arising from equity settled share based payments transactions:

	Group		Parent	
	2013	2012	2013	2012
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Share Option Plan 2009	7	22	7	22
Executive Directors and Key Management Personnel	202	200	202	200
Senior Management	-	149	-	149
	209	371	209	371

20 Reserves and retained earnings

(a) Reserves

		Group		Parent	
		2013	2012	2013	2012
		NZ$'000	NZ$'000	NZ$'000	NZ$'000
(i) Cash flow hedging reserve					
Opening balance		(3,309)	(9,055)	-	-
Revaluation - gross		11,230	6,967	-	-
Deferred taxation on revaluation	5	(2,827)	(1,072)	-	-
Transfer to net profit - gross		(27)	(149)	-	-
Closing balance		5,067	(3,309)	-	-
(ii) Foreign currency translation reserve					
Opening balance		7,628	3,889	-	-
Currency translation differences – Gross		(20,723)	4,159	-	-
Currency translation differences – Taxation	5	2,537	(420)	-	-
Closing balance		(10,558)	7,628	-	-
(iii) Share based payments reserve					
Opening balance		739	625	739	625
Current year amortisation		209	371	209	371
Transfer to Share Capital on vesting of shares to Employees		(72)	(249)	(72)	(249)
Share Options / Performance Rights lapsed		(53)	(8)	(53)	(8)
Closing balance		823	739	823	739
Total Reserves		(4,668)	5,058	823	739

Nature and purpose of reserves

(i) Cash flow hedging reserve

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in policy 2 (n) (ii). The amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

(ii) Foreign currency translation reserve

The foreign currency translation reserve is used to record gains or losses on investments in foreign operations. The amounts are accumulated in equity and recognised in profit and loss when the foreign operation is partially disposed of or sold.

(iii) Share 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.

(b) Retained earnings

	Group		Parent	
	2013	**2012**	**2013**	**2012**
	NZ$'000	**NZ$'000**	**NZ$'000**	**NZ$'000**
Opening retained earnings	77,278	62,418	(15,654)	(13,943)
Profit for the year	44,174	34,852	18,130	18,281
Share Options/Performance Rights lapsed	53	8	53	8
Less dividends paid	(20,018)	(20,000)	(20,018)	(20,000)
Balance at 31 July	101,487	77,278	(17,489)	(15,654)

21 Dividends

	Group		Parent	
	2013	**2012**	**2013**	**2012**
	NZ$'000	**NZ$'000**	**NZ$'000**	**NZ$'000**
Prior year final dividend paid	14,012	14,000	14,012	14,000
Current year interim dividend paid	6,006	6,000	6,006	6,000
Dividends paid ($0.10 per share (2012; $0.10))	20,018	20,000	20,018	20,000

22 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and other network audit firms:

	Group		Parent	
	2013	**2012**	**2013**	**2012**
	NZ$'000	**NZ$'000**	**NZ$'000**	**NZ$'000**
Audit services - PricewaterhouseCoopers				
Statutory audit	121	122	78	59
Half year review	28	28	28	28
Other assurance services	19	5	-	-
Total remuneration for audit services	168	155	106	87

23 Contingent liabilities

	Group		Parent	
	2013	2012	2013	2012
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Liabilities outstanding under letters of credit	2,161	1,542	-	-
Rent guarantees	9,131	9,848	-	-
Financial guarantees	1,813	1,713	-	-

24 Contingent assets

There are no contingent assets in 2013 (2012: nil).

25 Commitments

(a) Capital commitments

Capital commitments contracted for at balance date are:

	Group		Parent	
	2013	2012	2013	2012
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Property, plant and equipment	479	1,680	-	-
Intangible assets	720	1,183	-	-
	1,199	2,863	-	-

(b) Operating lease commitments

Group company as lessee:

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

	Group		Parent	
	2013	2012	2013	2012
	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Due within 1 year	43,618	39,193	-	-
Due within 1-2 years	38,618	34,446	-	-
Due within 2-5 years	70,916	73,580	-	-
Due after 5 years	16,159	20,048	-	-
	169,311	167,267	-	-

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.

26 Financial risk management

The Group's activities expose it to a variety of financial risks, market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to manage certain risk exposures. Derivatives are exclusively used for economic hedging purposes, i.e. not as trading or other speculative instruments, however not all derivative financial instruments qualify for hedge accounting.

Risk management is carried out based on policies approved by the Board of Directors. The Group treasury policy provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk. The Parent is not directly exposed to any significant financial risk.

(a) Market risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the AUD, USD and the GBP. The Group is exposed to currency risk on conversion of the trading results from its subsidiaries operating in Australia and the United Kingdom, and any cash remitted between Australia and the United Kingdom and New Zealand. The Group does not hedge for such remittances. The Group is exposed to purchases that are denominated in a currency other than the functional currency of Group entities, and over 90% of purchases are denominated in United States dollars. Hedging of this exposure is detailed in note 10. 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.

Refer to note 10 which shows the forward foreign exchange contracts held by the Group as derivative financial instruments at balance date. A sensitivity analysis of foreign exchange rate risk on the Group's financial assets and liabilities is provided in the table below.

Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from floating rate borrowings drawn down under bank debt facilities. The Group uses interest rate swaps to hedge floating rate borrowings in accordance with the Group treasury policy. Interest rate swaps have the economic effect of converting borrowings from floating to fixed rates.

Refer to note 10 for notional principal amounts and valuations of interest rate swaps outstanding at balance date. A sensitivity analysis of interest rate risk on the Group's financial assets and liabilities is provided in the table below. Refer to note 17 for further details of the Group's borrowings.

At the reporting date the interest rate profile of the Group's banking facilities was:

Carrying amount	**Group**		**Parent**	
	2013	**2012**	**2013**	**2012**
	NZ$'000	**NZ$'000**	**NZ$'000**	**NZ$'000**
Total secured loans	42,309	53,737	-	-
less Principal covered by interest rate swaps	(44,972)	(45,940)	-	-
Net Principal subject to floating interest rates*1	(2,663)	7,797	-	-

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

Interest rates on loans currently range from 3.53% – 3.73% (2012: 3.59% – 4.47%). The Group has entered into interest rate swap agreements to reduce the impact of changes in interest rates on its long-term debt. The cashflow hedge (gain)/loss on interest rate swaps at balance date was $659,211 (2012: $986,157).

Summarised sensitivity analysis

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

A sensitivity of -10% / +10% (2012: -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% (2012: -10% / +10%) is reasonable given the exchange rate volatility observed on an historic basis for the preceding five year period and market expectation for potential future movements.

A sensitivity of 1% (2012: 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 and exchange rates are held constant. The impact on equity is presented exclusive of the impact on retained earnings.

Group		**Interest rate risk**				**Foreign exchange risk**			
		-1%		**+1%**		**-10%**		**+10%**	
31 July 2013	**Carrying amount $'000**	**Profit $'000**	**Equity $'000**	**Profit $'000**	**Equity $'000**	**Profit $'000**	**Equity $'000**	**Profit $'000**	**Equity $'000**
Derivative financial instruments (asset) / liability	(7,228)	(449)	735	449	(761)	-	(12,036)	-	9,847
Financial assets									
Cash	2,345	(17)	-	17	-	145	-	(119)	-
Trade receivables and sundry debtors	1,008	-	-	-	-	(17)	-	14	-
		(17)	-	17	-	128	-	(105)	-
Financial liabilities									
Trade payables	33,032	-	-	-	-	(2,040)	-	1,669	-
Borrowings	42,309	423	-	(423)	-	-	(2,225)	-	1,820
		423	-	(423)	-	(2,040)	(2,225)	1,669	1,820
Total increase / (decrease)		(43)	735	43	(761)	(1,912)	(14,261)	1,564	11,667

Group		**Interest rate risk**				**Foreign exchange risk**			
		-1%		**+1%**		**-10%**		**+10%**	
31 July 2012	**Carrying amount $'000**	**Profit $'000**	**Equity $'000**	**Profit $'000**	**Equity $'000**	**Profit $'000**	**Equity $'000**	**Profit $'000**	**Equity $'000**
Derivative financial instruments (asset) / liability	3,879	(459)	209	459	(216)	-	(9,246)	-	7,565
Financial assets									
Cash	1,811	(13)	-	13	-	106	-	(87)	-
Trade receivables and sundry debtors	1,422	-	-	-	-	(79)	-	65	-
		(13)	-	13	-	27	-	(22)	-
Financial liabilities									
Trade payables	29,304	-	-	-	-	(1,869)	-	1,529	-
Borrowings	53,737	537	-	(537)	-	-	(2,179)	-	1,783
		537	-	(537)	-	(1,869)	(2,179)	1,529	1,783
Total increase / (decrease)		65	209	(65)	(216)	(1,842)	(11,425)	1,507	9,348

The parent is not sensitive to either interest rate or foreign exchange risk.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This would arise principally from the Group's receivables from customers. The nature of the customer base is such that there is no individual customer concentration of credit risk. Other financial instruments which potentially subject the Group to credit risks principally consist of bank balances, loans, advances and refund of taxes.

Trade and other receivables

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

The Group does not carry out credit evaluations for all new customers requiring credit. Credit is generally only given to government or local council backed institutions.

Exposure to credit risk

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

Carrying amount	**Group**		**Parent**	
	2013	**2012**	**2013**	**2012**
	NZ$'000	**NZ$'000**	**NZ$'000**	**NZ$'000**
Cash and cash equivalents	2,345	1,811	5	26
Trade receivables	125	206	-	-
Sundry debtors	883	1,216	-	-
	3,353	3,233	5	26

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

The credit quality of financial assets that are neither past due not impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	Group		**Parent**	
	2013	**2012**	**2013**	**2012**
	NZ$'000	**NZ$'000**	**NZ$'000**	**NZ$'000**
Cash and cash equivalents				
Standard & Poors - AA-	2,075	884	5	26
Standard & Poors - A	270	927	-	-
Total Cash and cash equivalents	2,345	1,811	5	26
Trade receivables:				
Counterparties with external credit rating	-	-	-	-
Counterparties without external credit rating[1]	125	206	-	-
Total trade receivables	125	206	-	-

1. Existing customers with no defaults in the past.

(c) Liquidity risk

Liquidity risk is the risk that an unforeseen event or miscalculation in the required liquidity level will result in the Group foregoing investment opportunities or not being able to meet its obligations in a timely manner, and therefore gives rise to lower investment income or to higher borrowing costs than normal. Prudent liquidity risk management includes maintaining sufficient cash, and ensuring the availability of funding from adequate amounts of credit facilities.

The Group's liquidity exposure is managed by ensuring sufficient levels of liquid assets and committed facilities are maintained based on regular monitoring of cash flow forecasts. The Group has lending facilities of $130,533,485 / $115,000,000 AUD (2012: $142,671,855 / $110,000,000 AUD) and operates well within this facility. This includes short term bank overdraft requirements, and at balance date no bank accounts were in overdraft.

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.

	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 2013				
Trade and other payables	33,032	-	-	-
Guarantees	13,105	-	-	-
Borrowings	1,542	1,542	42,914	-
	47,679	1,542	42,914	-
Group 2012				
Trade and other payables	29,304	-	-	-
Guarantees	13,103	-	-	-
Borrowings	3,128	3,128	54,932	-
	45,535	3,128	54,932	-

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 2013			
Forward foreign exchange contracts			
- Inflow	115,386	-	-
- Outflow	(107,499)	-	-
Net Inflow / (Outflow)	7,887	-	-
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	(470)	(240)	(102)
At 31 July 2012			
Forward foreign exchange contracts			
- Inflow	96,243	-	-
- Outflow	(99,138)	-	-
Net Inflow / (Outflow)	(2,895)	-	-
Net settled derivatives – interest rate swaps			
Net Inflow / (Outflow)	(606)	(300)	(83)

(d) Fair values

The only financial instruments held by the Group that are measured at fair value are over-the-counter derivatives. These derivatives have all been determined to be within level 2 (for the purposes of NZ IFRS 7) of the fair value hierarchy as all significant inputs required to ascertain the fair value of these derivatives are observable.

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

Trade debtors, trade creditors and bank balances

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

Term liabilities

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

Foreign exchange contracts and interest rate swaps

The fair value of these instruments is estimated based on the quoted market price of these instruments.

Guarantees and overdraft facilities

The fair value of these instruments is estimated on the basis that management do not expect settlement at face value to arise. The carrying value and fair value of these instruments is approximately nil. Details of guarantees are included in note 23. All guarantees are repayable on demand.

Financial instruments by category

	Loans and receivables NZ$'000	Derivatives used for hedging NZ$'000	Measured at amortised cost NZ$'000	Total NZ$'000
Group				
At 31 July 2013				
Cash and cash equivalents	2,345	-	-	2,345
Trade and other receivables	1,008	-	-	1,008
Derivative financial instrument assets	-	7,914	-	7,914
Total financial assets	3,353	7,914	-	11,267
Trade and other payables	-	-	29,901	29,901
Interest bearing liabilities	-	-	42,309	42,309
Derivative financial instrument liabilities	-	686	-	686
Total financial liabilities	-	686	72,210	72,896
At 31 July 2012				
Cash and cash equivalents	1,811	-	-	1,811
Trade and other receivables	1,422	-	-	1,422
Total financial assets	3,233	-	-	3,233
Trade and other payables	-	-	26,521	26,521
Interest bearing liabilities	-	-	53,737	53,737
Derivative financial instrument liabilities	-	3,879	-	3,879
Total financial liabilities	-	3,879	80,258	84,137
Parent				
At 31 July 2013				
Cash and cash equivalents	5	-	-	5
Related party receivable	81,944	-	-	81,944
Total financial assets	81,949	-	-	81,949
Trade and other payables	-	-	257	257
Total financial liabilities	-	-	257	257
At 31 July 2012				
Cash and cash equivalents	26	-	-	26
Related party receivable	82,885	-	-	82,885
Total financial assets	82,911	-	-	82,911
Trade and other payables	-	-	48	48
Total financial liabilities	-	-	48	48

(e) 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.

(f) Externally imposed capital requirements

The Group is subject to various covenants with its banking syndicate in relation to the ratios of earnings to total debt and interest on that debt, which were complied with during and at the end of the year.

27 Segmental information

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

31 July 2013	Australia NZ$'000	New Zealand NZ$'000	United Kingdom NZ$'000	Elimination NZ$'000	Total NZ$'000
Segment profit / (loss) before income tax	20,540	30,330	(2,348)	10,460	58,982
Income tax expense	(6,183)	(8,625)	-	-	(14,808)
Profit / (loss) after tax					44,174
Segment profit / (loss) before income tax includes the following specific income and (expenses):					
Sales to external customers	241,130	136,983	5,870	-	383,983
Sales to Group entities	588	1,169	-	(1,757)	-
Cost of sales	(81,251)	(57,881)	(2,826)	-	(141,958)
Interest income	40	10	-	-	50
Interest expense	(2,148)	(1,720)	-	-	(3,868)
Other finance costs	(299)	(308)	-	-	(607)
Intercompany net finance income/(expense)	(3,386)	3,386	-	-	-
Intercompany recharges income/(expense)	(8,895)	9,575	(680)	-	-
Depreciation and software amortisation	(7,009)	(3,202)	(398)	-	(10,609)
Exchange gain/(loss) on foreign currency borrowing	(10,415)	(164)	137	10,460	18
Additions of non-current assets	10,238	5,555	1,626	-	17,419
Total current assets	50,904	420,143	2,779	(379,895)	93,931
Total non-current assets	136,438	339,257	1,419	(194,828)	282,286
Total assets	187,342	759,400	4,198	(574,723)	376,217
Total current liabilities	(98,524)	(11,562)	(9,834)	81,100	(38,820)
Total non-current liabilities	(28,341)	(14,867)	-	-	(43,208)
Total liabilities	(126,865)	(26,429)	(9,834)	81,100	(82,028)

31 July 2012	Australia NZ$'000	New Zealand NZ$'000	United Kingdom NZ$'000	Elimination NZ$'000	Total NZ$'000
Segment profit / (loss) before income tax	29,240	26,977	(3,435)	(1,656)	51,126
Income tax expense	(8,746)	(7,528)	-	-	(16,274)
Profit / (loss) after tax					34,852
Segment profit / (loss) before income tax includes the following specific income and (expenses):					
Sales to external customers	213,974	126,127	7,003	-	347,104
Sales to Group entities	896	1,357	297	(2,550)	-
Cost of sales	(70,839)	(53,489)	(3,231)	-	(127,559)
Interest income	48	83	-	-	131
Interest expense	(2,420)	(1,850)	(4)	-	(4,274)
Other finance costs	(882)	(705)	-	-	(1,587)
Intercompany net finance income/(expense)	(3,867)	3,867	-	-	-
Intercompany recharges income/(expense)	(8,135)	8,135	-	-	-
Depreciation and software amortisation	(5,882)	(3,321)	(328)	-	(9,531)
Exchange gain/(loss) on foreign currency borrowing	1,583	(123)	87	(1,656)	(109)
Additions of non-current assets	13,817	7,831	205	-	21,853
Total current assets	42,676	407,330	3,954	(375,351)	78,609
Total non-current assets	150,085	338,718	246	(194,828)	294,221
Total assets	192,761	746,048	4,200	(570,179)	372,830
Total current liabilities	(97,826)	(9,928)	(7,510)	76,556	(38,708)
Total non-current liabilities	(27,739)	(26,749)	-	-	(54,488)
Total liabilities	(125,565)	(36,677)	(7,510)	76,556	(93,196)

Revenue is allocated based on the country in which the customer is located. New Zealand includes holding company costs and head office charges.

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

The Group operates in one industry being outdoor clothing and equipment.

Deferred tax assets have been included within non-current assets as they form part of the amounts provided to the Chief Operating Decision Maker, and the comparative information has been updated to reflect this.

The Group has no reliance on any single major customers.

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.

28 Earnings per Share

Basic earnings per share is calculated by dividing the profit after tax attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.
Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group's dilutive potential ordinary shares are in the form of share options / performance rights.

	2013	**2012**
	'000	**'000**
Weighted average number of shares in issue	200,197	200,000
Adjustment for:		
- Share options / performance rights	1,924	3,121
	202,121	203,121

29 Earthquake disclosures

The Christchurch earthquake that occurred on 22 February 2011 did not have a significant impact on trading. Kathmandu has business interruption insurance that provided cover for this event. Kathmandu's Cashel Street store was damaged in the earthquake and the lease of that store has since been terminated.

In the financial statements:

- Net proceeds received to date of $293,000 (2012: $0) arising from the business interruption and material damage claim relating to this has been recognised in the financial statements. The claim has still to be finally agreed with the insurers.
- All assets lost or damaged as a result of the earthquake have been written off, and the cost of this write-off is included in the calculation of net proceeds above.

30 Events occurring after the balance date

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

Independent Auditors' Report
to the shareholders of Kathmandu Holdings Limited

Report on the Financial Statements
We have audited the financial statements of Kathmandu Holdings Limited ("the Company") on pages 4 to 46, which comprise the balance sheets as at 31 July 2013, the statements of comprehensive income and statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 July 2013 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements
The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, Kathmandu Holdings Limited or any of its subsidiaries other than in our capacities as auditors and providing other assurance services. These services have not impaired our independence as auditors of the Company and the Group.

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Independent Auditors' Report
Kathmandu Holdings Limited

Opinion
In our opinion, the financial statements on pages 4 to 46:

(i) comply with generally accepted accounting practice in New Zealand; and

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 31 July 2013, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements
We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 July 2013:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use
This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants — Christchurch
24 September 2013