Kathmandu®

KATHMANDU HOLDINGS LIMITED

REJECT
BRISCOE'S OFFER

Target Company Statement in response to the Takeover Offer by Briscoe Group Limited

THIS IS AN IMPORTANT DOCUMENT AND REQUIRES YOUR IMMEDIATE ATTENTION

FINANCIAL ADVISER
Goldman Sachs

LEGAL ADVISER
CHAPMAN TRIPP

Contents

Chairman's Letter

David Kirk
Chairman

Dear fellow Shareholder

You recently received documentation from Briscoe in relation to its unsolicited takeover Offer for your Kathmandu Shares.

Briscoe is offering five Briscoe Shares for every nine Kathmandu Shares and NZ$0.20 cash for each Kathmandu Share you hold[1]. The implied value of the Offer is NZ$1.80 per Share, based on the 1 month volume weighted average price of Briscoe Shares up to and including 29 June 2015. As at the date of this Statement, Briscoe owns 19.9% of the Shares in Kathmandu.

The Directors of Kathmandu unanimously recommend that you **REJECT** the Offer. Your Kathmandu Directors intend to **REJECT** the Offer in relation to the Kathmandu Shares they own or control. To **REJECT** the Offer, simply ignore all documents from Briscoe and do nothing.

The reasons why you should **REJECT** the Offer are set out below and in Section 1 of this Statement:

- **The Offer is below the Independent Adviser's valuation.** The Independent Adviser has valued each Kathmandu Share at between NZ$2.10 and NZ$2.41 per Share, NZ$0.30 to NZ$0.61 above the implied value of the Offer of NZ$1.80[2] per Share
- **The Offer is inadequate and does not reflect the underlying value of Kathmandu.** Based on multiples in comparable transactions and trading multiples of vertically integrated peers, the Offer undervalues your Kathmandu Shares
- **Briscoe can afford to offer a lot more for your Shares.** Illustrative EPS accretion analysis for FY2016F indicates that Briscoe can afford to offer more than the top end of the Independent Adviser's range and still be accretive for Briscoe. Briscoe is not paying enough for the significant contribution Kathmandu will make to the combined group's earnings
- **The timing of the Offer is highly opportunistic.** The Offer has been timed to exploit recent weakness in Kathmandu's Share price and an isolated period of challenging trading conditions
- **The Offer fails to reflect the strength of Kathmandu's business and future plans for growth.** Kathmandu has recently invested in core systems, and identified opportunities to drive sales growth and efficiency in its cost base. FY2016F begins to demonstrate the benefits of these initiatives
- **Becoming a Briscoe shareholder would change the profile of your investment.** Kathmandu is a higher growth, geographically diverse, vertically integrated retailer with a focus on outdoor travel and adventure products. In contrast, Briscoe is a lower growth, New Zealand only business with a greater focus on general homewares and sporting goods
- **The implied value of the Offer is uncertain.** The Offer has a very high proportion of consideration in Briscoe Shares and minimal cash, which will expose Kathmandu Shareholders to movements in the value of Briscoe Shares. There is no guarantee Briscoe will achieve inclusion in the S&P/ASX 200 index or the S&P/NZX 50 index

continues overleaf

[1]In lieu of receiving Briscoe Shares, Foreign Exempt Shareholders will have Briscoe Shares allotted to a nominee in New Zealand who will sell the shares as soon as practicable after allotment and in a manner consistent with the terms of the Offer and then pay the then pay the proceeds, net of brokerage to the Foreign Exempt Shareholder.
[2]Implied value of the Offer based on Briscoe's 1 month VWAP of NZ$2.88 for the period up to and including 29 June 2015.

You own part of a high quality company with a strong outlook. Your Directors have full confidence in management's ability to deliver strong results from Kathmandu's operations in the future. Your Directors and management intend to continue to operate Kathmandu for the benefit of all Shareholders.

This document sets out your Directors' formal response to the Offer, including detailed reasons why your Directors unanimously recommend that you **REJECT** the Offer. I encourage you to read this document carefully. If you are in any doubt about how to respond to this Offer, seek financial advice from an independent, qualified adviser who is able to take account of your individual circumstances.

As the Offer progresses we will keep you updated on any significant developments. In the meantime, if you have any questions, you can call the official Kathmandu Information Line on 0800 777 256 (from within New Zealand), 1800 190 082 (from within Australia) or +64 9 375 5998 (from outside New Zealand and Australia).

Yours sincerely

David Kirk
Chairman
Kathmandu Holdings Limited

SECTION 1

Directors' Recommendation


Kathmandu

Directors' Recommendations

Why you should **REJECT** Briscoe Group's Offer

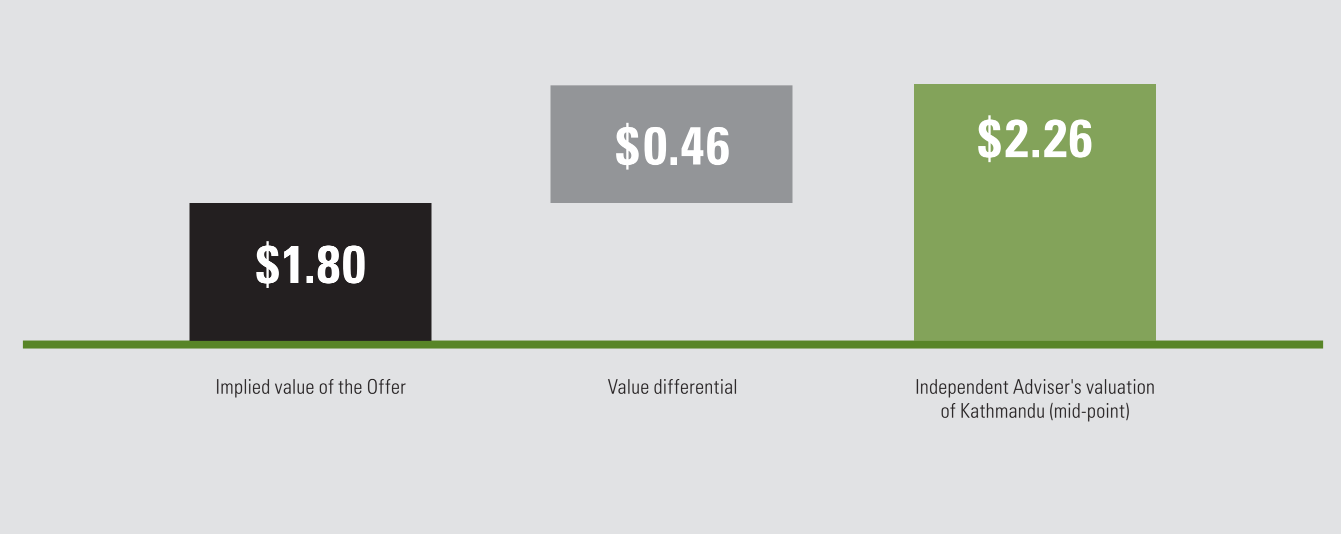
1. The Offer is significantly below the Independent Adviser's valuation
2. The Offer is inadequate and does not reflect the underlying value of Kathmandu
3. Briscoe can afford to offer a lot more for your Shares
4. The timing of the Offer is highly opportunistic
5. The Offer fails to reflect the strength of Kathmandu's business and future plans for growth
6. If you accept the Offer you will become a Briscoe shareholder, changing the profile of your investment
7. The implied value of the Offer is uncertain

1. The Offer is significantly below the Independent Adviser's valuation

The Independent Adviser has concluded that the Offer is significantly lower than their assessed valuation for Kathmandu

- Kathmandu engaged Grant Samuel to prepare an Independent Adviser's Report required by the Takeovers Code to assess the merits of the Offer. The full Independent Adviser's Report is set out in Section 7 of this Statement
- The Independent Adviser has assessed the full underlying value of Kathmandu Shares to be in the range of NZ$2.10 to NZ$2.41 per Kathmandu Share, NZ$0.30 to NZ$0.61 above the implied value of the Offer of NZ$1.80[3] per Share

The Offer is NZ$0.46 below the Independent Adviser's valuation mid-point for Kathmandu[4,5] (NZ$)



The Independent Adviser has also identified a number of factors that could adversely affect the implied value of the Offer

- The implied value of the Offer is dependent upon movements in Briscoe's share price. The actual value received by Kathmandu Shareholders who accept the Offer could be less than, or exceed, the implied value of the Offer today
- The liquidity of Kathmandu Shares is likely to be adversely affected if the transaction is successful. Kathmandu is listed on both the NZSX and ASX, and included in the S&P/NZX50 and S&P/ASX200 indices. Inclusion in these indices ensures a greater level of liquidity in Kathmandu Shares. Briscoe is not part of either of these indices, reflecting its very small free float by virtue of the c. 78% shareholding of Rod Duke
- There are several taxation implications if the Offer is successful, including the forfeiture of Kathmandu's imputation credits of approximately NZ$1.77m if Briscoe's shareholding exceeds 66%, and the incurrence of a capital gains tax for certain Australian shareholders
- Kathmandu Shareholders will be exposed to integration risks and synergies. There may be unanticipated issues or costs that arise on integration

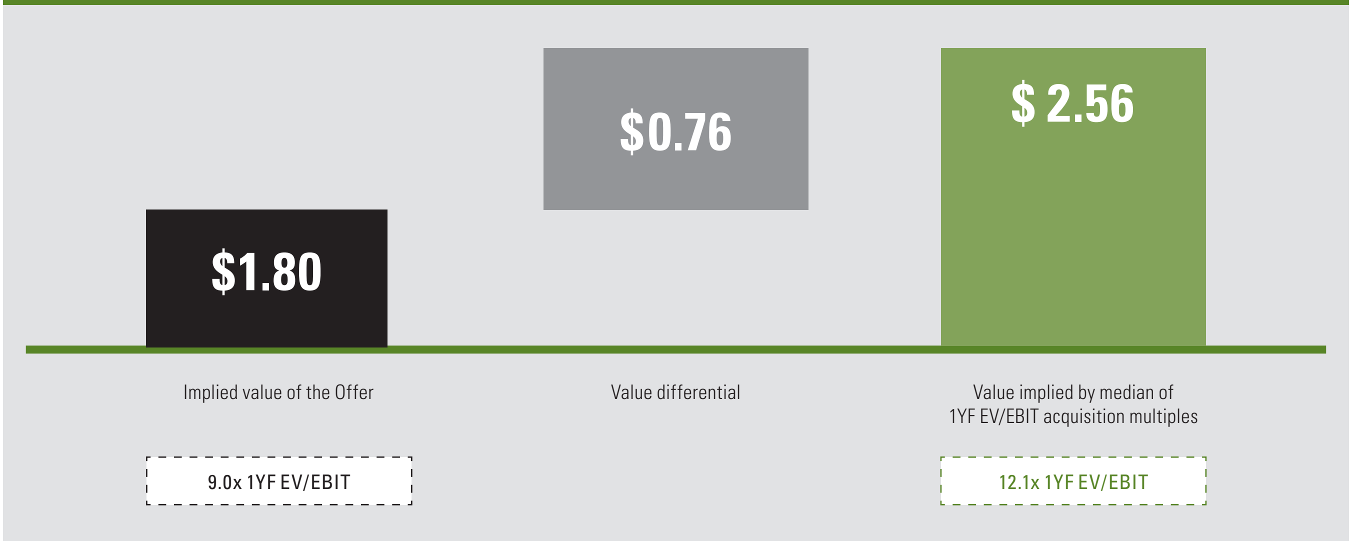
[3] Implied value of the Offer based on Briscoe's 1 month VWAP of NZ$2.88 for the period up to and including 29 June 2015.
[4] Per footnote above.
[5] Value differential based on the difference between the implied value of the Offer and the mid-point of the Independent Adviser's valuation range for Kathmandu.

2. The Offer is inadequate and does not reflect the underlying value of Kathmandu

The Offer is inadequate and does not reflect underlying value

- The Offer undervalues your Kathmandu Shares based on an analysis of earnings multiples in comparable transactions involving vertically integrated retailers
- The Offer implies an EV / EBIT multiple of approximately 9.0x[6], substantially below the median multiple for comparable transactions of 12.1x[7], based on 1YF earnings multiples
- Prior to announcing its intention to lodge a takeover notice, Briscoe was trading on a 1YF EV / EBIT multiple of 9.2x[8], which is higher than the multiple offered to acquire Kathmandu and prior to any control premia being applied

The implied 1YF EV / EBIT multiple of the Offer is below the multiples paid in comparable transactions[9,10] (NZ$)



[6] Implied Offer multiple assumes Kathmandu FY2016F EBIT of $48.2m per management estimates, as detailed in Section 3 of this Statement. Calculation of EV based on the 201.5m Kathmandu Shares on issue, net debt of $69.7m (as at 31 July 2015), and an Offer price of $0.20 cash per Share and five Briscoe Shares for every nine Kathmandu Shares, based on Briscoe's 1 month VWAP of NZ$2.88 for the period up to and including 29 June 2015.

[7] Median 1YF EBIT multiples based on vertical apparel retail transactions for control in the last 5 years where data available (no meaningful data available for domestic transactions). Transactions include Ascena / ANN Inc. (2015): 12.3x, The Men's Wearhouse / Jos A Bank (2013): 11.7x, Apax Partners / rue21 (2013): 12.1x, TowerBrook / True Religion (2013): 9.0x and Sycamore / Hot Topic (2013): 14.5x.

[8] Based on Briscoe's closing share price of NZ$2.85 on 29 June 2015, outstanding shares of 217.2m and net cash position of $89.7m (as at 29 January 2015). 1YF EBIT based on median of broker consensus estimates, adjusted to July year end. Kathmandu's Directors do not adopt or endorse in any way the broker consensus forecasts for Briscoe.

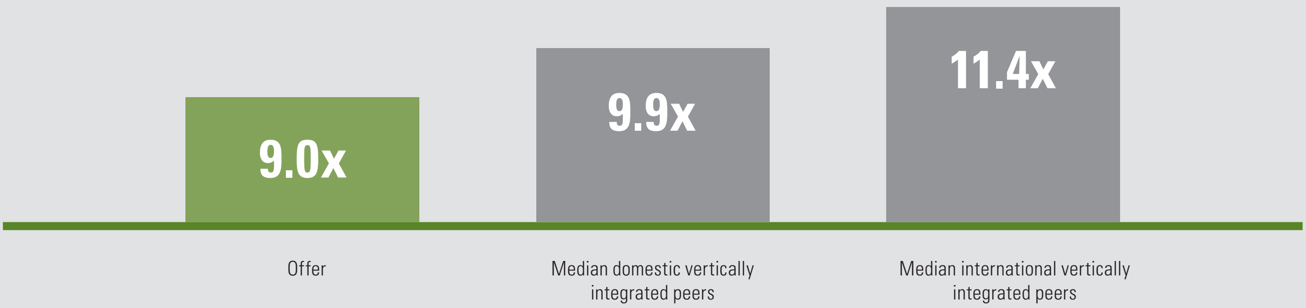
[9] Implied Offer multiple assumes Kathmandu FY2016F EBIT of $48.2m per management estimates, as detailed in Section 3 of this Statement. Calculation of EV based on the 201.5m Kathmandu Shares on issue, net debt of $69.7m (as at 31 July 2015), and an Offer price of $0.20 cash per Share and five Briscoe Shares for every nine Kathmandu Shares, based on Briscoe's 1 month VWAP of NZ$2.88 for the period up to and including 29 June 2015.

[10] Value differential based on the difference between the implied value of the Offer and the offer price implied by the median multiple for comparable transactions.

The Offer does not appropriately value Kathmandu's vertically integrated business model

- Kathmandu is a vertically integrated designer, marketer and retailer of Kathmandu-branded clothing and equipment. In contrast, Briscoe is a retailer and distributor of predominantly third party owned brands in housewares and sporting goods
- Vertically integrated retailers benefit from brand ownership, and typically enjoy higher gross margins and greater growth potential (including online and international) than non-vertically integrated retailers
- As a result, vertically integrated retailers typically trade on higher earnings multiples than non-vertically integrated retailers
- The Offer values Kathmandu at 9.0x[11] 1YF EV / EBIT, significantly below domestic and international vertically integrated peers, despite Kathmandu's EBIT margin and growth being in line or above vertically integrated peers

Comparison of the Offer's implied multiple for control to the trading multiples of vertically integrated peers prior to any control premia (1YF EV / EBIT)[12,13,14,15]



FY2016F	Offer	Median domestic vertically integrated peers	Median international vertically integrated peers
EBIT growth	*43.0%*	*15.5%*	*11.4%*
EBIT margin	*10.6%*	*10.0%*	*12.0%*

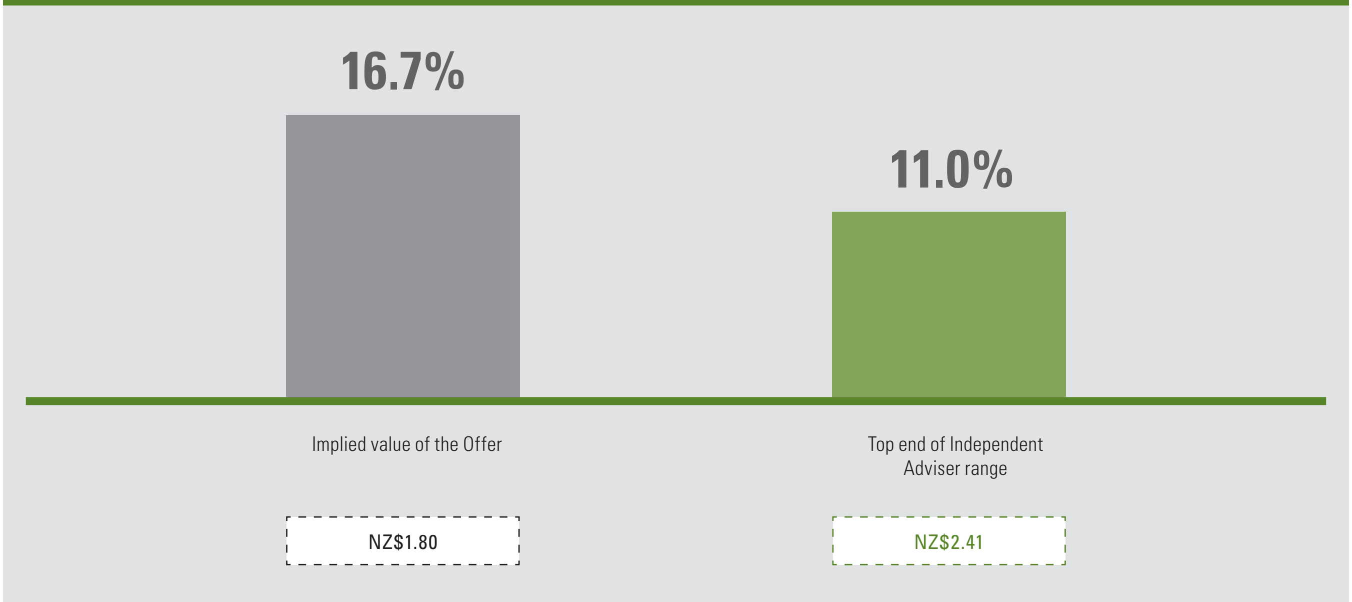
[11] Implied Offer multiple assumes Kathmandu FY2016F EBIT of $48.2m per management estimates, as detailed in Section 3 of this Statement. Calculation of EV based on the 201.5m Kathmandu Shares on issue, net debt of $69.7m (as at 31 July 2015), and an Offer price of $0.20 cash per Share and five Briscoe Shares for every nine Kathmandu Shares, based on Briscoe's 1 month VWAP of NZ$2.88 for the period up to and including 29 June 2015.
[12] Adjusted to July year end. Kathmandu as at 29 Jun 2015, the last trading day before Briscoe lodged its Notice of Intention to make a Takeover Offer. EV sourced from S&P Capital IQ, peer share prices as at 31 July 2015. Assumes AUD/NZD: 1.11, USD/NZD: 1.52, SEK/NZD: 0.18 and EUR/NZD: 1.66.
[13] Implied Offer multiple assumes Kathmandu FY2016F EBIT of $48.2m per management estimates, as detailed in Section 3 of this Statement. Calculation of EV based on the 201.5m diluted Kathmandu Shares on issue, net debt of $69.7m (as at 31 July 2015), and an Offer price of $0.20 cash per Share and five Briscoe Shares for every nine Kathmandu Shares, based on Briscoe's 1 month VWAP of NZ$2.88 for the period up to and including 29 June 2015.
[14] Domestic vertically integrated peers includes Hallenstein Glasson (7.5x), Lovisa (13.2x), Michael Hill (7.6x), Oroton (9.2x), Premier Investments (14.7x) and Super Retail Group (10.6x).
[15] International vertically integrated peers includes Abercrombie & Fitch (11.3x), American Eagle (9.5x), Carter's (12.8x), Chico's (11.0x), GAP (7.6x), Guess? (11.4x), H&M (18.4x), Inditex (22.9x), Kate Spade (16.1x), L Brands (12.6x) and Urban Outfitters (9.3x).

3. Briscoe can afford to offer a lot more for your Shares

Briscoe is not sharing enough of the benefits of the transaction with Kathmandu Shareholders

- Briscoe can afford to offer more than the current Offer and even more than the top end of the Independent Adviser's valuation range for each of your Kathmandu Shares based on an assessment of EPS accretion[16] to Briscoe shareholders, assuming the Offer is successful
- The illustrative pro forma analysis set out below, shows that it is possible that the Offer would still be EPS accretive for Briscoe shareholders if the Offer was at the top end of the Independent Adviser's assessed valuation range (NZ$2.41 per Kathmandu Share). This is prior to inclusion of any synergies that have been identified by Briscoe but not quantified
- Similarly, the transaction is dilutive to Kathmandu Shareholders at prices well in excess of the implied value of the Offer of NZ$1.80[17]
- The illustrative pro forma FY2016F EPS accretion analysis highlights that Briscoe can afford to offer a lot more for your Shares and is not sharing enough of the benefits of the transaction with Kathmandu Shareholders under the current Offer

Illustrative pro forma FY2016F EPS accretion to Briscoe shareholders[18,19,20]

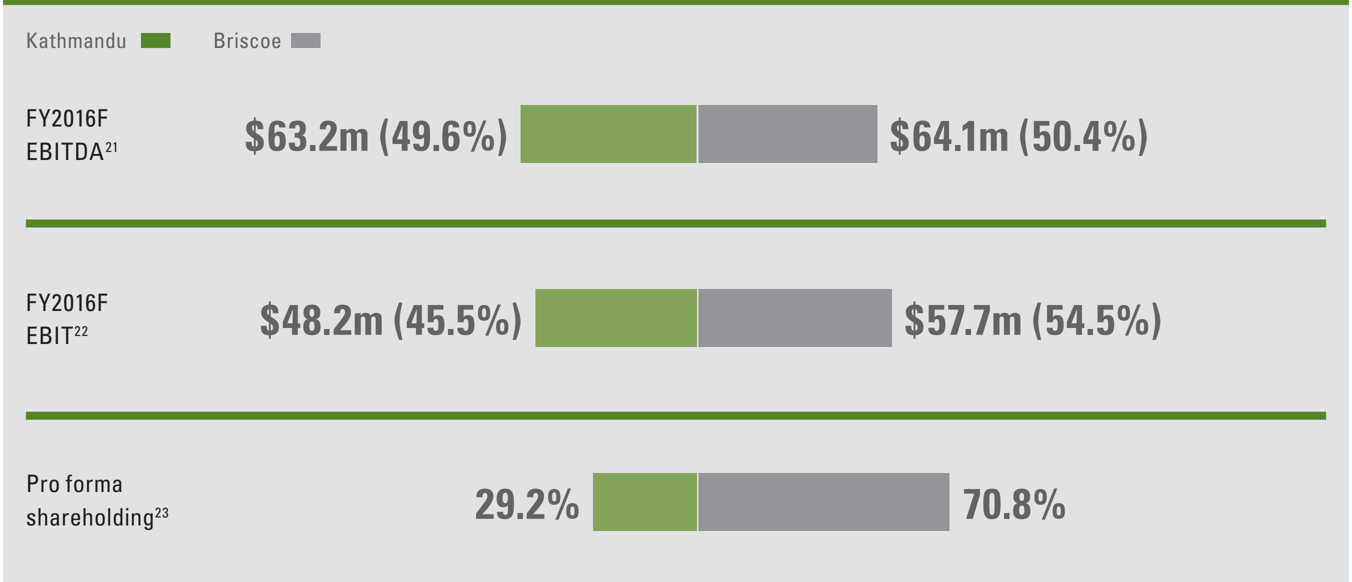


[16] EPS accretion means that the acquirer's EPS after an acquisition is expected to be higher than it would have been if the acquisition did not take place.
[17] Implied value of the Offer based on Briscoe's 1 month VWAP of NZ$2.88 for the period up to and including 29 June 2015.
[18] The above EPS accretion / dilution analysis is illustrative and pro forma in nature, it does not purport to forecast the actual impact on Kathmandu. The actual impact may differ due to various reasons including cost of acquisition, timing, financial position and performance of Briscoe and Kathmandu at the time of acquisition, the cost of funding the acquisition and the impact of any other relevant transactions.
[19] The illustrative pro forma analysis assumes an effective transaction date of 1 August 2015. The bar on the left hand side of the chart assumes Briscoe acquired the remaining 161m Kathmandu Shares it does not currently own, at an acquisition price of NZ$1.80 per Share comprising NZ$0.20 per Share in cash consideration and five Briscoe Shares for every nine Kathmandu Shares held, based on Briscoe's 1 month VWAP of NZ$2.88 per share for the period up to and including 29 June 2015. Total consideration includes scrip consideration of NZ$258m and total cash consideration of NZ$101m. Total cash consideration includes the cash consideration Briscoe paid to acquire its original 19.9% stake prior to launching the Takeover Offer of NZ$69m, and cash consideration associated with the cash component of the Offer of NZ$32m. Cash consideration assumed to be funded NZ$63m from balance sheet cash and NZ$38m from new debt. Assumes no refinancing of Kathmandu's debt. Pro forma analysis assumes no synergies. Assumes blended tax rate, cost of debt of 5.0%, return on cash of 2.5% and no transaction costs or transaction related amortisation. The bar on the right hand side of the chart assumes Briscoe acquired the remaining 161m Kathmandu Shares it does not already own, at an acquisition price of NZ$2.41 per Share comprising NZ$0.81 per Share in cash consideration and five Briscoe Shares for every nine Kathmandu Shares held. Any incremental offer funding is assumed to be sourced from debt. All other assumptions remain the same.
[20] The forecast financial profile of Briscoe used in the analysis is based on median of broker consensus, adjusted to July-year end. Kathmandu's Directors do not adopt or endorse in any way the broker consensus forecasts for Briscoe that underlie the illustrative pro forma EPS accretion numbers for FY2016F. The forecast financial profile of Kathmandu is based on management estimates for FY2016F. Refer to Section 3 of this Statement for further details on Kathmandu management's FY2016F forecasts.

Briscoe is not offering enough for the significant contribution Kathmandu would make to the combined group earnings

- Kathmandu would contribute almost half of the combined group's earnings based on FY2016F forecasts, as shown below
- The Offer does not currently reflect a fair sharing of the combined group's future earnings and upside to Kathmandu's Shareholders

Comparison of earnings contribution and pro forma shareholdings (NZ$m, %)



[21] Kathmandu based on management estimates as detailed in Section 3 of this Statement. Briscoe based on median of broker consensus estimates, adjusted to July year end.
[22] Per footnote above.
[23] Assumes Kathmandu Shareholders receive five Briscoe Shares for every nine Kathmandu Shares owned (other than the 40.1m Kathmandu Shares already acquired by Briscoe). Based on Kathmandu Shares of 201.5m and Briscoe Shares of 217.2m.

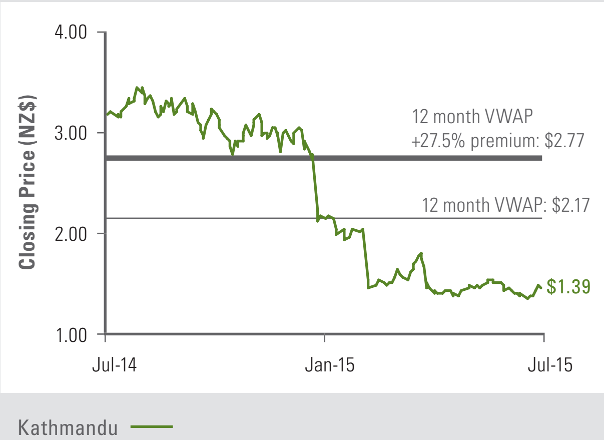
4. The timing of the Offer is highly opportunistic

The Offer is timed to exploit Kathmandu's recent Share price underperformance

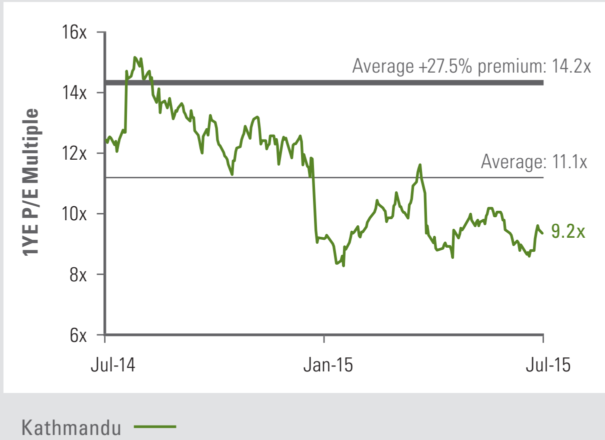
The Offer has been opportunistically timed to exploit Kathmandu's recent Share price underperformance

- Kathmandu listed in November 2009 at NZ$2.13 per Share and within five years had reached a high of NZ$4.00 per Share, up approximately +88%, following consecutive years of outperformance
- Briscoe's opportunistically-timed Offer comes immediately following a period of challenging trading conditions for Kathmandu during 1H2015, as detailed later in this Section, which contributed to Kathmandu's recent Share price underperformance
  - Kathmandu's Share price as at 29 June 2015 (prior to Briscoe announcing its intention to make a takeover offer) was NZ$1.39, approximately 36% below its 12 month VWAP of NZ$2.17[24]
  - Kathmandu's 1YF P/E multiple as at 29 June 2015 was 9.2x, approximately 17% below its average 1YF P/E over the last 12 months
- Grant Samuel in its Independent Adviser's Report in Section 7 of this Statement note that a typical control premium can be between 20% and 35%. Taking the mid-point of this range of 27.5% and applying it to a longer term Kathmandu Share price, such as the 12 month VWAP of NZ$2.17, implies a control price of NZ$2.77, well above the implied value of the Offer of NZ$1.80 per Share[25]

Share price performance – last 12 months[26,27]



1YF rolling P/E multiple – last 12 months



Kathmandu has experienced an isolated period of challenging trading conditions and has incurred one-off higher operating expenses and reduced sales in FY2015F

- In the Q1 to Q3 period of FY2015 challenging trading conditions coincided with a number of strategic initiatives and business improvements Kathmandu was implementing. These investments, coupled with increased levels of operating expenditure Kathmandu incurred in anticipation of a stronger sales performance than was actually achieved, exacerbated the negative impact of the external challenges Kathmandu faced in the period
- Additional investments in systems, online infrastructure and distribution centre capacity were also made. These are necessary investments to provide a robust infrastructure for future growth
- During 1H2015, Kathmandu's sales were also impacted by external factors outside of management's control

[24] Kathmandu 12 month VWAP based on market values and volumes in Kathmandu on ASX and NZSX for the 12 month period leading up to and including 29 June 2015. ASX values converted from AU$ to NZ$ based on the daily spot AUD/NZD foreign exchange rate.
[25] Implied value of the Offer based on Briscoe's 1 month VWAP of NZ$2.88 for the period up to and including 29 June 2015.
[26] Kathmandu 12 month VWAP based on market values and volumes in Kathmandu on ASX and NZSX for the 12 month period leading up to and including 29 June 2015. ASX values converted from AU$ to NZ$ based on the daily spot AUD/NZD foreign exchange rate.
[27] Sourced from IRESS at 29 June 2015.

Internal factors

- Kathmandu's performance in FY2015F has been impacted by a number of strategic initiatives and business improvements Kathmandu were implementing throughout the year

1	**Excess inventory entering FY2015F**	▸ In Q1 2015, Kathmandu undertook an aggressive stock clearance initiative to clear excess FY2014 stock, which resulted from lower than usual sales during Kathmandu's winter sale period in FY2014 ▸ The clearance of this excess inventory effectively filled a level of underlying demand with low margin sales, bringing sales forward from the balance of 1H2015 and resulting in significant margin compression for FY2015F
2	**Pricing and promotional activity**	▸ Kathmandu made a series of pricing and promotional decisions during 1H2015 and Q3 2015 which led to customer confusion regarding the sales proposition and price point ▸ Advertising of Kathmandu's key Christmas and Easter promotions was not innovative and did not fully utilise new/online marketing channels, generally repeating both style and content of previous campaigns ▸ Consequently, sales in Kathmandu's high-margin summer product categories underperformed, placing pressure on gross margin
3	**Operating expenditure**	▸ Kathmandu continued to increase operating costs such as marketing, store leases and labour in FY2015, anticipating a level of on-going sales growth in line with prior years ▸ The rate of increase in operating costs was excessive given the weaker sales result and reduced gross margins achieved in the summer season ▸ Opportunities for significant savings in operating expenditure have been identified and are scheduled to be made
4	**Management transition**	▸ Xavier Simonet was appointed as CEO on 23 January in 2015 but did not commence until July 2015 ▸ In addition, Kathmandu's team has changed substantially over the past 12 months, including the appointment of new CFO, CIO, General Manager Retail - Stores Australasia, General Manager for Europe, Group Marketing Manager and Head of Design ▸ The absence of a permanent CEO and these ongoing changes in the senior management team required Kathmandu throughout much of FY2015 to focus primarily on executing existing business as usual strategies whilst the new leadership team was on-boarded ▸ Kathmandu now has the management team in place and expertise to address the isolated experiences of FY2015F and realise the potential of the Kathmandu brand in Australasia and internationally
5	**Investment in physical infrastructure and software**	▸ In FY2015F Kathmandu was operating an enlarged New Zealand distribution centre for the first time, and committed to substantially enlarging and relocating its Australian distribution centre. Kathmandu has continued to invest heavily in the three year programme to upgrade core systems platforms ▸ The investment in physical infrastructure is critical to increasing Kathmandu's scale to accommodate effective servicing of its customer

5	**Investment in physical infrastructure and software** (cont'd)	base. This is reflected in Summit Club member and store number growth and omni-channel retail offering development, including global online markets ▶ New end-to-end systems are enabling efficient end-to-end product management from range planning and supplier engagement through to warehousing and flexible point of sale capability. Better working capital management has already been realised in lower inventories per store, but future enhancement of CRM capability, enhanced product management and supply chain efficiency is still to come ▶ The investments have resulted in higher labour and transitional costs, as well as depreciation and amortisation, which are yet to be offset by the future expected growth in sales resulting from the greater capacity and capability, along with improved back office efficiency

FY2015F abnormal items

- In addition to the internal factors described above, Kathmandu experienced a number of abnormal items during the year, impacting the FY2015F group result

1	**UK brand investment**	▶ The FY2015F group result includes NZ$2.8m of brand advertising in the UK market, which was wholly discretionary expenditure unrelated to the profitable Australasian business and not undertaken in previous years
2	**FY2015F winter sale timing and duration**	▶ Kathmandu's winter sale promotion started on Tuesday 16 June 2015 compared to Tuesday 10 June 2014 and the total duration of the promotion was two days shorter. The four days of promotional trading at the end of FY2014 that were not repeated in FY2015F earned c. NZ$2.7m of EBIT in FY2014
3	**Other one-offs**	▶ Other one-offs, which amounted to NZ$1.4m (pre-tax), including accelerated depreciation and onerous lease expenses associated with the relocation of the Australian distribution centre and Christchurch support office

External factors

- During 1H2015, Kathmandu's performance was impacted by external factors outside of management's control

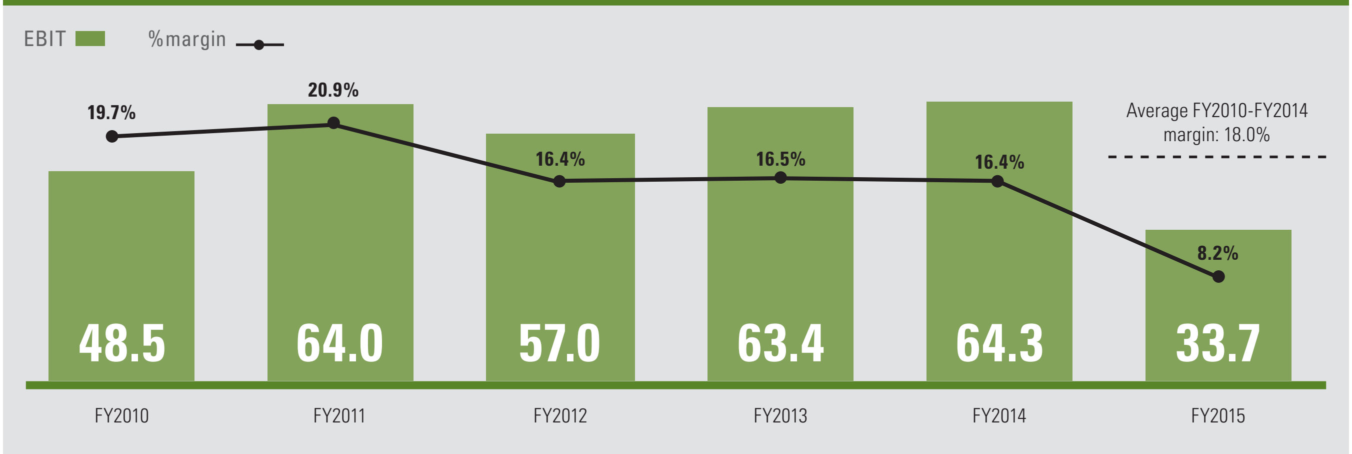
1	**Subdued consumer sentiment**	▶ Subdued consumer sentiment translated into negative macro pressure on the Australian retail environment, impacting sales performance for a number of Australian retailers, including Kathmandu ▶ Market growth in both apparel and sport & camping equipment fell in 1H2015 compared to 1H2014, declining to 1.4% and 0.7% growth from 7.7% and 13.6% respectively[28]
2	**Weakening foreign exchange rate**	▶ The weakened exchange rate against the US dollar increased cost of goods, which could not all be recovered by increasing the price, thereby reducing margins

[28] Sourced from ABS and RBA.

Kathmandu's averaged historical EBIT margin is more than twice its FY2015F margin

- Kathmandu's EBIT margin has averaged approximately 18.0% over the period FY2010 to FY2014, over twice that of the EBIT margin in FY2015F, reflecting the isolated period of challenging trading conditions in 1H and Q3 FY2015

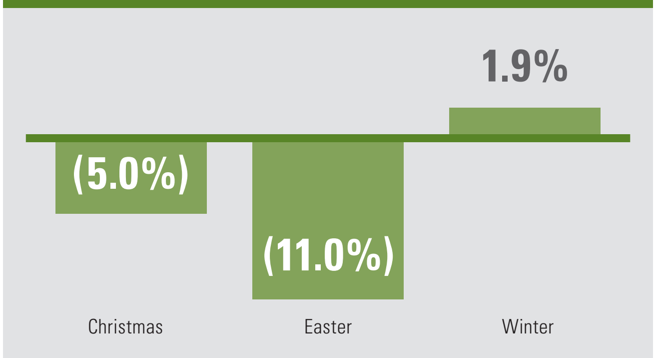
Historical EBIT and margin (NZ$m,%)



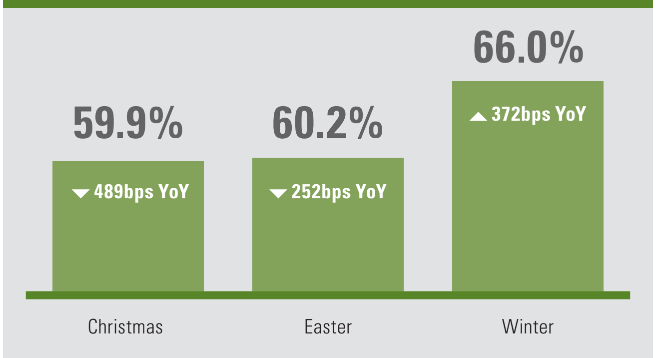
Kathmandu's recent trading performance in Q4 FY2015F provides evidence that the underperformance to Q3 FY2015 was isolated

- Group sales and gross margin over the recent winter promotional period are higher than the comparable FY2014 period. This increase is in contrast to reduced gross margin achieved YoY during the FY2015 Christmas and Easter sale periods. The improvement in gross margin followed successful promotion to Summit Club members and drove increased sales at the beginning of the winter promotion at reduced discount levels compared to FY2014. The modified promotional strategy, supported by advertising, focussed on new products, highlighting features, rather than price and discounts and provides evidence that the underperformance to Q3 FY2015 was isolated

Group Same Store Sales vs. comparable period (%) – three major FY2015 promotional periods[29]



Group gross profit margin (%) – three major FY2015 promotional periods[30]



[29] Winter includes two days of forecast sales.
[30] Basis point change YoY compares equivalent promotional period in FY2015 to FY2014.

5. The Offer fails to reflect the strength of Kathmandu's business and future plans for growth

Kathmandu has identified several priorities to drive top line growth and improve cost efficiency

- Kathmandu has identified specific strategies to (i) drive Same Store Sales growth and continued store roll-out in Australasia, (ii) realise its full online potential, (iii) expand internationally through a capital-light business model and (iv) become more efficient

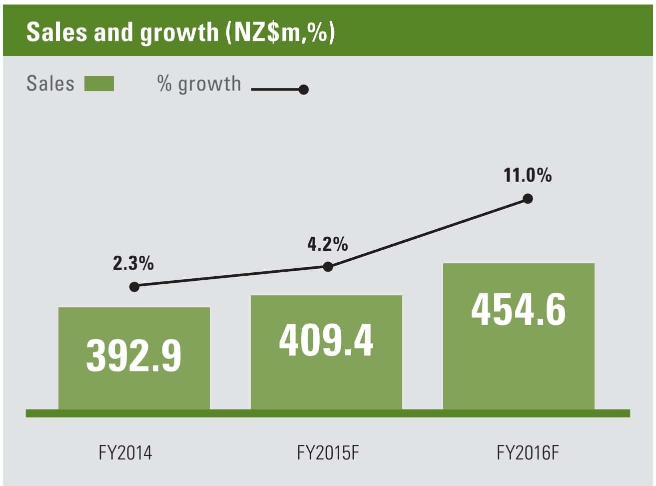
1	**Australasian sales growth initiatives**	*Optimise the pricing and promotional model* ▸ Kathmandu will review and refine its discount promotions model, and turn its attention towards providing customers with quality and value through a simpler promotions and pricing architecture, focusing on: – Advertising strategy that is lower cost overall and makes more efficient use of the social and digital media channels – Promotion spend that activates increase in foot traffic and basket size – Refining the promotional calendar to increase traffic earlier in seasons, reducing 'sales fatigue/dependency' of customers – Optimising structure of sales events, both breadth and depth, to maximise gross profit contribution *Enhance store experience and improve profitability through growing contribution from traffic-driving products and maximising range productivity* ▸ Kathmandu will optimise its space and product offering to grow traffic and sales profitability through: – Improving each new-season range to resonate with customer requirements and continue to strengthen Kathmandu's image in 'adventure travel' and positioning as an aspirational brand – Improving visual merchandising and stock presentation in store to enhance the messaging of expertise in product for adventure and travel activity supported by comprehensive customer service – Increasing focus on categories and products that drive frequency of visitation, facilitated by improved forecasting, planning and real time performance analysis capability – Optimising space allocation in store to those product groups that will maximise gross profit contribution *Capitalise on activation of Summit Club members* ▸ Kathmandu has over 1.3 million[31] Summit Club members who represent c. 70% of Kathmandu's annual sales ▸ Kathmandu will focus on building enhanced loyalty and individual engagement with its members, providing an improved value proposition through: – Targeted marketing spend, providing better, differentiated pricing during major promotions compared to non-members – Personalised communication, rewards and recognition, facilitated by Kathmandu's improved CRM platform

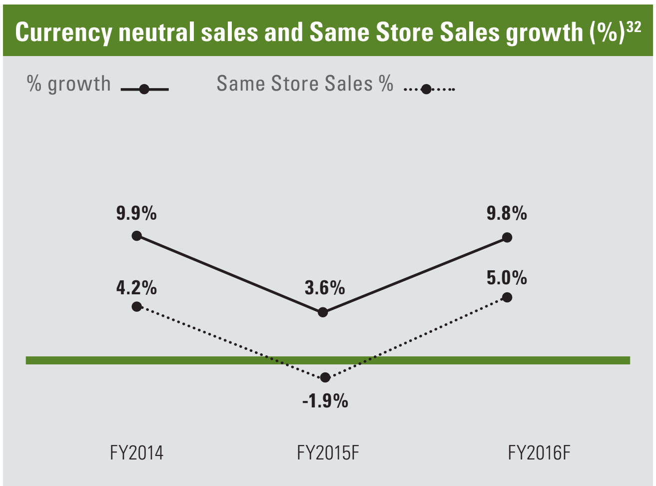
[31] Summit Club members as at 26 July 2015.

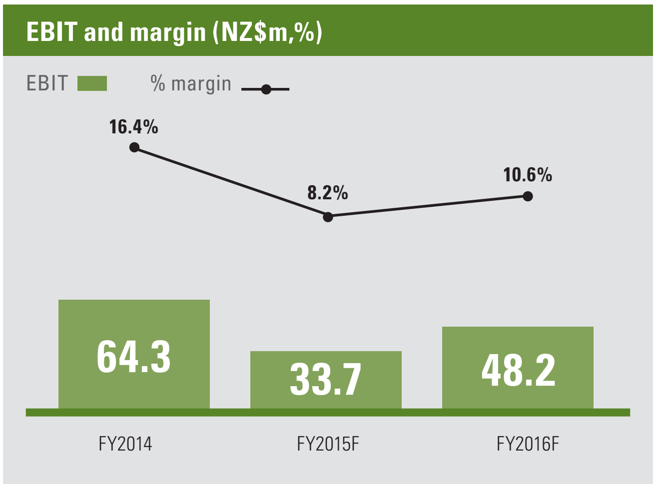
		▸ Going forward, Kathmandu will capitalise on its CRM platform to provide information and analytics on the purchasing behaviour of Summit Club members to drive category range and optimisation to best suit their needs *Continue footprint expansion in Australasia* ▸ Kathmandu will continue disciplined footprint expansion in Australia and New Zealand, and has a store network plan of c. 180 sites in total across two countries – Further roll-out is based on determined optimal store sizing and specific site and catchment characteristics – 10 permanent stores opened during FY2015F, with new stores in FY2016F (three already confirmed), to continue if justified by individual store ROI
2	**Realise full online potential**	▸ Outdoor apparel is fast migrating online, driven by consumer preference and favourable category characteristics, and will continue to be a key sales channel for Kathmandu going forward. Having recognised the importance of the online model, Kathmandu has made a significant investment in online systems and has a strong online presence, growing online sales at a CAGR of 50.9% over the last four years. Online sales now represent more than 6% of total sales ▸ Kathmandu will prioritise its online growth by: – Building a true omni-channel offering; fully integrating with in-store sales to provide one range available to all customers – Actively leveraging Summit Club members to drive online sales – Driving site visitation through targeted campaigns, partnering and social media – Optimising shopping options and launching country specific online stores – Continuing to invest in its ecommerce platform to increase usability and functionality – Continue building a click and collect offering to expand into key market places and channels
3	**International expansion opportunity via a capital light model**	▸ Kathmandu will utilise its brand equity to expand internationally through a capital-light model and leveraging its online platform ▸ Kathmandu will tailor its international strategy to key growth markets via the most effective channel for each market – potentially online only, wholesale distribution, owned or franchised retail stores or a combination of these channels
4	**Cost base efficiencies**	▸ Kathmandu has identified a number of opportunities to improve its cost structure and drive margin expansion – Improved productivity from workforce; improved scheduling; dedicated resources to optimise store labour – More efficient advertising spend, utilising digital media with greater effect – Decrease in distribution labour costs as a percentage of sales, as new software efficiencies are realised – Optimise marketing spend with clear metrics and ROI – Obtain operating leverage from some of the key investments made in such areas as distribution

Kathmandu expects significant sales growth and continued margin recovery in FY2016F

- Kathmandu expects significant sales growth in FY2016F, driven by the strategic initiatives already in place, as well as the growth initiatives to come, as detailed previously
- In addition, Kathmandu will build on the recovery in its EBIT margin commenced in Q4 2015 in FY2016F, driven by the operational leverage resulting from investment in software and core systems, as well as realising the identified opportunities for efficiencies in its cost base, as detailed above
- Further detail on Kathmandu's FY2016F forecast including key assumptions, is provided in Section 3 of this Statement







[32] Shows sales and Same Store Sales growth adjusted for the impact of exchange rates

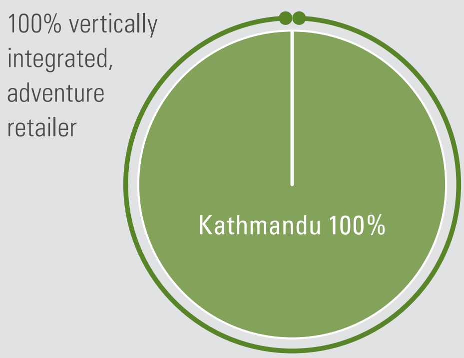
6. If you accept the Offer you will become a Briscoe shareholder, changing the profile of your investment

You will have reduced exposure to Kathmandu and its future growth

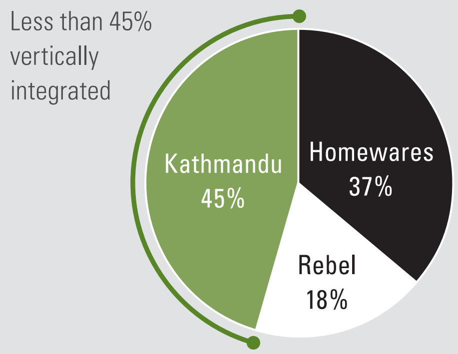
- Kathmandu is a vertically integrated designer, marketer and retailer of Kathmandu-branded clothing and equipment. It is single brand and category (outdoor travel and adventure) focussed. In contrast, Briscoe is a retailer and distributor of predominantly third party owned brands, in homewares and sporting goods. If you accept the Offer and it is successful, you will become a Briscoe shareholder with reduced exposure to the outdoor travel and adventure sector, and more exposure to the general homewares and sporting goods sectors
- Kathmandu's business is geographically diversified, with approximately two-thirds of sales outside New Zealand, predominantly in Australia. Briscoe is exclusively based in New Zealand. If you accept the Offer and it is successful, you would become a shareholder in Briscoe and approximately 70% of sales will be concentrated in New Zealand on a pro forma basis

By division[33]

Kathmandu standalone FY2015F sales

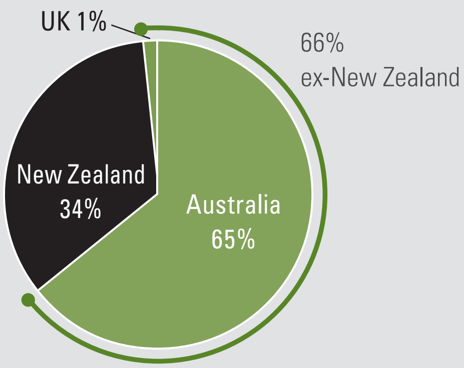


Pro forma FY2015F sales

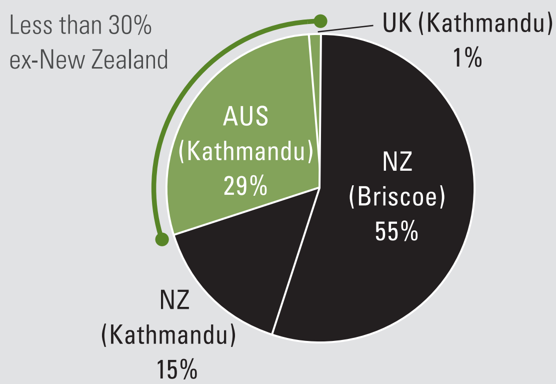


By geography[34]

Kathmandu standalone FY2015F sales



Pro forma FY2015F sales

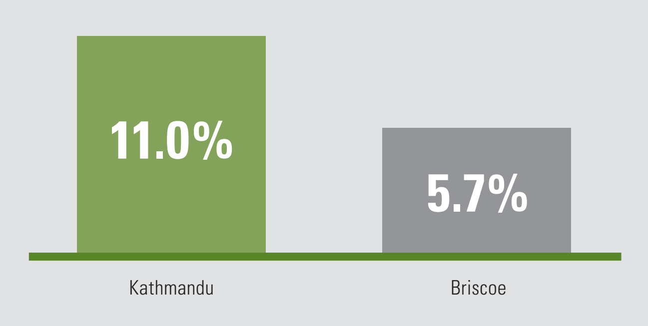


- Briscoe is a mature company with approximately half the sales growth Kathmandu is expecting, based on forecasts from equity research analysts. If you accept the Offer, you will become a shareholder in a more mature company with a lower growth outlook than Kathmandu on a standalone basis

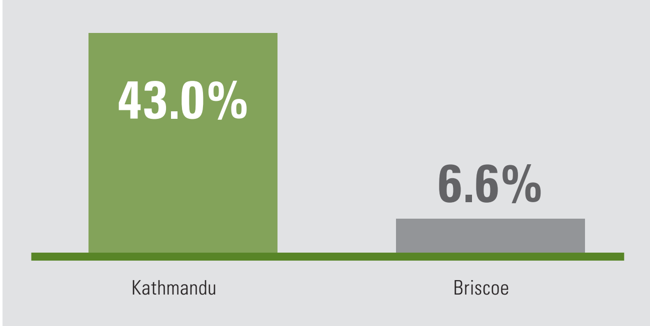
[33] Pro forma based on Briscoe's segment information for the financial year to 25 January 2015 and Kathmandu's unaudited results for FY2015F. No adjustment applied to pro forma analysis to obtain a consistent year end.

[34] Per footnote above.

FY2016F sales growth (%)[35]



FY2016F EBIT growth (%)[35]



Uncertainty over Briscoe's management team experience in vertically integrated apparel focussed retailing, product design, brand development, customer loyalty programmes, online and Australia/ international growth

- Briscoe's management team operate a business exclusively in New Zealand with no significant experience in operating a business in Australia or internationally. Kathmandu has a trans-Tasman management team domiciled in Melbourne and Christchurch determined by appropriate location required for their area of expertise
- Kathmandu stores are predominantly small stores focussed primarily on apparel in shopping malls in Australia, Briscoe (including Rebel Sport) stores are primarily larger "destinational" stores all located in New Zealand
- Briscoe's New Zealand-based team retail retail predominantly third-party brands including a range of imported brands. In contrast, Kathmandu's trans-Tasman team design, specify and manage the direct manufacture of their own branded product (apparel and equipment) and then sell this product primarily to their approximately 1.3 million Summit Club members[36]. Briscoe does not have a customer loyalty programme

The Offer lacks detail on Briscoe's intentions and strategic plans, in particular on the outlook for the combined group

- Briscoe has provided minimal information regarding its intentions for the combined group. Its Offer document states it sees "the operations of both businesses as being complementary in terms of the markets they serve and the products they offer". Briscoe expects that the Briscoe Homeware, Living & Giving and Rebel Sport retail chains and Kathmandu will operate separately with their own brands and branding as part of the combined group
- Briscoe has identified potential benefits and synergies to include design, manufacture and distribution, online operations, inventory management and logistics, operations management, support services, property and systems, but has not provided any detail or quantified the tangible synergies and costs of the proposed transaction
- By its own admission, in its Offer document, Briscoe admits that, aside from seeking compulsory acquisition of remaining shares (if it can) or Board representation (if it cannot), it does not currently intend to make any material changes to Kathmandu's business activities or assets

Rod Duke will have a high degree of ownership and control over the combined group

- If the Offer completes and Briscoe moves to compulsory acquisition of Kathmandu, it is expected that Rod Duke would own approximately 55%[37] of the shares in the combined group
- This shareholding, combined with Rod Duke's position as Managing Director, will mean that Rod Duke has a significant ability to influence the strategy and future direction of the combined group

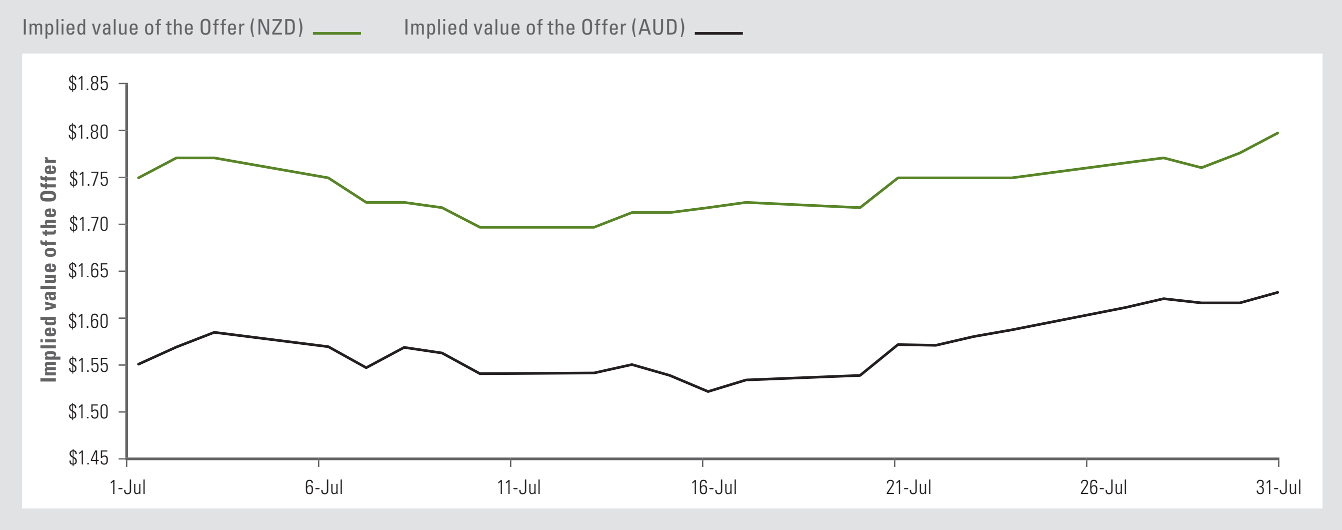
[35] Kathmandu FY2016F based on management forecasts. Refer to Section 3 of this Statement for further details on Kathmandu management's FY2016F forecasts. FY2016F of Briscoe based on median of broker consensus estimates, adjusted to July-year end. Kathmandu's Directors do not adopt or endorse in any way the broker consensus forecasts for Briscoe.
[36] Summit Club members as at 26 July 2015.
[37] Assumes 169.5m shares in Briscoe held by Rod Duke, 47.7m held by other Briscoe shareholders and 89.7m new shares issued as transaction consideration resulting in 306.8m pro forma shares in the combined group.

7. The implied value of the Offer is uncertain

The Offer lacks certainty regarding the value of consideration

- The Offer has a very high proportion of consideration in Briscoe's Shares and minimal cash. This means that the implied value of what Kathmandu Shareholders will receive under the Offer is uncertain and fluctuates on a day to day basis
- The Shareholders who sold their Shares to Briscoe prior to announcement of the Offer received all cash consideration and accordingly, were not exposed to any of the uncertainty regarding movements in the value of Briscoe Shares
- Should the transaction proceed and Shareholders wish to cash out their Briscoe Shares, there is no certainty regarding the actual proceeds they may be able to realise

Implied value of the Offer in NZD and AUD[38,39]



- Australian Shareholders in Kathmandu will be exposed to further uncertainty as a result of receiving the cash consideration in New Zealand dollars. Australian Kathmandu Shareholders will bear the risk associated with any adverse foreign exchange movements between New Zealand and Australia

Change in imputation and franking credit position going forward

- Post transaction, Briscoe may be able to pay franked dividends for Australian tax purposes and New Zealand imputed dividends for New Zealand tax purposes. However, as a result of anti-streaming rules, Australian franking would be diluted as franked dividends have to be equally paid to non-Australian shareholders and New Zealand imputation would be diluted as imputed dividends have to be equally paid to non-New Zealand shareholders
- To the extent that less than 66% of Kathmandu's Shareholders become shareholders in any merged entity with Briscoe, the imputation credit balance currently held by Kathmandu will be forfeited. The imputation credit balance is approximately NZ$1.77m at the date of this Statement

[38] Implied value of the Offer (NZD) based on Briscoe trading on NZSX. Implied value of the Offer (AUD) converted from NZ$ to AU$ based on the daily spot AUD/NZD foreign exchange rate.
[39] Sourced from IRESS.

Briscoe is not an ASX listed stock – it has stated that it intends to seek an ASX listing if the Offer is successful but the timing of listing is uncertain

- Kathmandu has a listing on both the NZSX and ASX whereas Briscoe currently only has a listing on NZSX
- The Offer is not conditional upon it achieving an ASX listing
- Whilst Briscoe has indicated that if the Offer is successful, it currently intends to seek a listing of the combined group on ASX, it also notes that there is no guarantee that Briscoe's application to ASX will be successful. Therefore, if you accept the Offer there is a risk that you will receive NZSX shares that will not subsequently become listed on ASX
- Given that even if the Offer is successful, Briscoe will still need to attend to a number of matters to achieve its ASX listing (such as adopting a constitution that is consistent with the ASX Listing Rules and preparing either a prospectus that satisfies the requirements of the Corporations Act 2001 (Cth) or an information memorandum that complies with the requirements of ASX Listing Rule 1.4), if you accept the Offer you are likely to receive and hold shares that are only NZSX listed at that time. Briscoe has provided no indication as to how long it will take for the ASX listing to be completed

The combined group may not be included in relevant ASX or NZSX indices

ASX

- Kathmandu is currently included in the S&P/ASX 200 index, the primary index followed by Australian institutional index funds
- If the Offer is successful, in order for the combined group to achieve index inclusion in the S&P/ASX 200 index it will need to satisfy the relevant size and liquidity criteria, which will depend on the level of acceptances achieved, the number of Shareholders who choose to hold their Shares on the ASX register and the resulting trading liquidity. There is no certainty that the combined group will achieve S&P/ASX200 index inclusion
- If Briscoe waived its 90% Minimum Acceptance Condition and achieved a shareholding in Kathmandu between 50% and 90%, it is also possible that Kathmandu would no longer satisfy the criteria for inclusion in the S&P/ASX 200 index on a standalone basis

NZSX

- Kathmandu is currently included in the S&P/NZX 50 index, which is widely considered New Zealand's preeminent benchmark index. The index is float-adjusted, covering approximately 90% of of NZSX's equity market capitalisation
- Briscoe is not currently included in the S&P/NZX 50 index, although it is included in a number of smaller indices
- Regardless of Briscoe's size following the Offer, the S&P/NZX 50 index has minimum liquidity requirements to ensure that only stocks that are regularly traded are included in the index. Briscoe currently has low liquidity in absolute terms and does not meet the minimum requirements for index inclusion. S&P/NZX 50 index criteria requires Briscoe to meet the minimum liquidity requirements for three consecutive quarterly rebalancings before it will be considered for index inclusion
- There is no certainty that the combined group will achieve S&P/NZX 50 index inclusion

Briscoe's stock lacks liquidity and there are risks to Kathmandu's free float levels if the 90% Minimum Acceptance Condition is waived or lowered

- Kathmandu is a highly liquid stock with 53%[40] of its total Shares outstanding turning over in the three months to 29 June 2015

[40] Based on cumulative trading volumes on ASX and NZSX for the period leading up to and including 29 June 2015, the day prior to the date upon which Briscoe announced its intention to lodge a takeover notice. Assumes 201.5m outstanding Shares for Kathmandu.

- In contrast, Briscoe is a highly illiquid stock with Rod Duke holding over 78% of the outstanding Briscoe Shares on issue
- Post transaction, Kathmandu Shareholders will have a significant exposure to Briscoe shares with uncertainty over the liquidity levels, and therefore risk not being able to sell their shares at the time of their choosing

Trading volumes of Kathmandu compared to Briscoe – percentage of issued capital traded (%)[41]

	Kathmandu	Briscoe
1 week	9.3%	0.1%
1 month	18.9%	0.1%
3 months	53.0%	0.4%
6 months	142.6%	0.9%

- In the event Briscoe elects to lower its Minimum Acceptance Condition below 90% and becomes a significant Shareholder in Kathmandu's free float level will reduce, impacting ongoing liquidity of Kathmandu Shares

Briscoe may lower its 90% Minimum Acceptance Condition to 50% and not achieve compulsory acquisition

- Briscoe has disclosed that it currently has a 19.9% holding in Kathmandu Shares
- If Briscoe waives the 90% Minimum Acceptance Condition and accordingly fails to become the holder or controller of 90% or more of the voting rights of Kathmandu, it will not be entitled to proceed to compulsory acquisition
- As a result, (if the Offer is successful), Kathmandu would remain listed on ASX and Briscoe would hold between 50% and 90% of its Shares
- For Shareholders rejecting the Offer, this would likely result in a materially lower level of liquidity than Kathmandu Shareholders currently enjoy and Kathmandu Shareholders may not be able to exit their shareholdings at the time of their choosing
- For Shareholders accepting the Offer, the liquidity levels in Briscoe would also likely be lower under this scenario as fewer Briscoe Shares would be issued as consideration for the Offer and Briscoe would have a lower free float

There is uncertainty for Kathmandu Shareholders regarding the availability of capital gains tax scrip for scrip rollover relief in Australia

- In order for Kathmandu Shareholders to benefit from scrip for scrip rollover relief for Australian capital gains tax, Briscoe must become the owner of at least 80% of Kathmandu at the conclusion of the Offer
- There is no guarantee that Briscoe will achieve this level of acceptance if the 90% Minimum Acceptance Condition is waived by Briscoe
- If the 90% Minimum Acceptance Condition is waived by Briscoe and less than 80% of Kathmandu Shareholders accept into the Offer, capital gains tax rollover relief will not be available
- The scrip for scrip relief rules are complex, and require the taxpayers to meet certain strict requirements. In this context, it would be usual for companies to seek a class ruling from the ATO to confirm their position

[41] Based on cumulative trading volumes on ASX and NZSX for the period leading up to and including 29 June 2015, the day prior to the date upon which Briscoe announced its intention to lodge a takeover notice. Assumes 201.5m outstanding Shares for Kathmandu. Assumes 217.2m outstanding shares for Briscoe.


Kathmandu

SECTION 2
Frequently Asked Questions and Answers

Frequently Asked Questions and Answers

Q: What is Briscoe offering for my Kathmandu Shares and how has this been calculated?
A: Briscoe is offering Kathmandu Shareholders based in Australia and New Zealand NZ$0.20 per Kathmandu Share you hold and five Briscoe Shares for every nine Kathmandu Shares you hold, which equates to an implied value of NZ$1.80 per Kathmandu Share based on a Briscoe Share price of NZ$2.88 (which is the 1 month volume weighted average price for the period up to and including 29 June 2015).

Implied value of the Offer	NZ$
Cash	0.20
Share consideration (5/9 x value of Briscoe Share)[42]	1.60
Total implied value of the Offer per Kathmandu Share	1.80

Kathmandu Shareholders should note that the implied value of the Offer will vary as the market price of Briscoe's Shares on the NZSX changes over time.

Q: Can I elect to receive cash instead of Briscoe Shares?
A: No. However, you may elect to sell your Kathmandu Shares on the ASX and/or NZSX during the Offer period or sell any Briscoe Shares you receive after the Offer. In addition, Small Shareholders can elect to receive cash under the nominee resale facility described in the Offer.

Q: Where can I find out what the Kathmandu Directors think about the Briscoe Offer?
A: Your Directors unanimously recommend that you **REJECT** the Offer. The attached letter from David Kirk and Section 1 of this Statement contain more details regarding the Directors' recommendation to **REJECT** the Offer and the reasons for making this recommendation.

Q: Where can I get an independent assessment of the Offer?
A: The Independent Adviser's Report included in Section 7 of this Statement provides an independent appraisal of the merits of the Briscoe Offer and a comparison of the implied value of the Offer compared to the value of Kathmandu Shares. The Independent Adviser's Report concluded that the underlying value of Kathmandu Shares is in the range of NZ$2.10 to NZ$2.41 per Kathmandu Share.

Q: What choices do I have in response to the Offer?
A: As a Shareholder, you have the following three choices in respect of your Kathmandu Shares:

- Reject the Offer– to Reject the Offer simply do nothing and ignore all documents sent to you by Briscoe. If you **REJECT** the Offer you will remain a Kathmandu Shareholder, unless Briscoe proceeds to compulsory acquisition.
- Sell your Kathmandu Shares on the ASX and/or NZSX.
- Accept the Offer by completing the Green Acceptance Form or Blue Acceptance Form included in the Offer documentation sent by Briscoe.

Q: When do I have to make a decision on the Briscoe offer?
A: The Offer must remain open for at least 30 days. The Offer is currently scheduled to remain open until 17 September 2015 unless the Offer period is extended.

[42] Implied value of the Offer based on Briscoe's 1 month VWAP of NZ$2.88 for the period up to and including 29 June 2015.

Q: What if I am a Kathmandu Shareholder outside of Australia and New Zealand?
A: If you do not live in Australia or New Zealand, it may not be legal for Briscoe to issue you Briscoe Shares pursuant to the Offer. In lieu of receiving Briscoe Shares, your Briscoe Shares will be allotted to a nominee in New Zealand who will sell the shares as soon as practicable after allotment in accordance with the Takeovers Code (Kathmandu Holdings Limited) Exemption Notice 2015. You will receive net proceeds in New Zealand dollars after deducting brokerage and other costs..

If there is any question as to whether you may legally receive Briscoe Shares, this will be determined by a suitably qualified expert nominated by Briscoe (who is independent of, and not an associate of Briscoe).

Q: Did Kathmandu have any knowledge of Briscoe's intention to make an Offer?
A: No. Kathmandu was made aware of Briscoe's intention to make the Offer on 30 June 2015, when Briscoe announced it had acquired a 19.9% shareholding in Kathmandu and would be lodging a takeover notice imminently.

Q: What does Briscoe's 19.9% stake in Kathmandu mean for the Offer?
A: Briscoe announced on 30 June that it had acquired 19.9% of the Shares in Kathmandu. The Takeovers Code prevents Briscoe from acquiring any more Shares in Kathmandu unless the Kathmandu Shares are acquired through the Offer. Briscoe's 19.9% stake in Kathmandu does not prevent other parties from making a new offer for your Shares at a higher price and/or on superior terms than Briscoe's existing Offer.

Q: Are there any conditions to the Offer?
A: The Offer is subject to 24 different conditions. At the date of this Statement, none of these conditions have been satisfied or waived. These conditions are set out in the Offer documents sent to you by Briscoe.

Q: What happens if the conditions of the Offer are not satisfied or waived?
A: If the conditions to the Offer are not satisfied or waived by the condition date (2 October 2015, but this may be extended in accordance with the Takeovers Code), the Offer will lapse and you will retain ownership of your Kathmandu Shares. Even if you accept the Offer, you will only be paid if all the conditions are satisfied or waived.

Q: Must I accept the Offer for all my Shares or can I accept only some of my Kathmandu Shares into the Offer?
A: Shareholders are entitled to accept the Offer for all or a specific (lesser) number of their Shares.

Q: What happens if Briscoe receives acceptances which result in it holding less than the target 90% of Shares?
A: The Offer is for all the Kathmandu Shares that Briscoe does not already hold with the 90% Minimum Acceptance Condition being a condition of the Offer. Briscoe can elect to waive that 90% Minimum Acceptance Condition and accept acceptances for more than 50% of Kathmandu's Shares. If Briscoe waives the 90% Minimum Acceptance Condition and the 90% Minimum Acceptance Condition is not satisfied, Briscoe will not be permitted to proceed to compulsory acquisition of 100% of the Kathmandu Shares. Briscoe has indicated that in these circumstances, it may seek Board representation over time.

Q: What happens if Briscoe is unsuccessful in achieving more than 50% of Kathmandu's Shares?
A: If Briscoe does not receive acceptances in relation to more than 50% of the Kathmandu Shares, the Offer will fail and none of the acceptances received by Briscoe will be registered.

Q: If Briscoe hold more than 50% but less than 100% of Kathmandu Shares will Kathmandu remain listed on the NZSX and/or the ASX?
A: If Briscoe does not achieve sufficient acceptances to take its shareholding to 90% or more, Kathmandu can request NZSX and ASX that its Shares are delisted. While Kathmandu remains listed, it is required to comply with the NZSX and ASX Listing Rules, including the requirement to maintain Directors who are independent of Briscoe, but Briscoe would control the majority of Kathmandu's Board and could influence the request to delist. However, Kathmandu understands that NZSX and ASX can make delisting subject to such conditions it thinks fit, which can include arrangements to protect minority shareholders.

Q: Could I be forced to sell my shares?
A: You cannot be forced to sell your Shares under the Offer. However, in the event the 90% Minimum Acceptance Condition is satisfied, Briscoe can subsequently acquire your Shares at the same price under the compulsory acquisition provisions of the Takeovers Code.

Q: Can I accept the Offer with the right to withdraw?
A: If you wish to accept the Offer and maintain the right to withdraw, you can only do so with the Blue Acceptance Form that Briscoe sent to you. If you complete the Green Acceptance Form and then change your mind, or there is a superior offer, you may not withdraw your acceptance (other than for non-payment).

The Form must be completed and returned to Briscoe prior to the date of the Confirmation Notice (as defined in the Offer). This date will occur when Briscoe makes the Offer unconditional. If the Form is not validly completed prior to this date, you will be unable to accept any other offer which may be made unless and until the Offer lapses. For this reason, the Board has recommended that Shareholders wait until near the end of the Offer period for the Offer, before making their decision in respect of the Offer.

Q: Can Briscoe vary the Offer?
A: Under the Takeovers Code Briscoe is only permitted to vary the Offer in the following ways:

- to increase the cash or scrip component of the consideration under the Offer;
- to add a cash alternative (but only with Kathmandu's Directors' prior written approval); and/or
- to extend the Offer period (if the Offer period is extended, Briscoe can also vary the date on which the Offer becomes unconditional).

Q: What if I accept the Offer and then Briscoe lifts the Offer price?
A: Under the Takeovers Code, if you have already accepted the Offer and the price under the Offer is later increased, you would receive the higher price if the Offer is successful.

Q: Can the Offer period be extended?
A: Yes. Briscoe can extend the Offer period by varying the Offer. But, the maximum Offer period is 90 days beginning on 22 July 2015 unless:

- the 90% Minimum Acceptance Condition is satisfied or waived before the end of the Offer period (in which case Briscoe can extend the Offer period for up to 60 days from the date that such condition is satisfied or waived); or
- the 90% Minimum Acceptance Condition is satisfied or waived in the 7 days before the end of the Offer period (in which case the Offer period will automatically be extended for 14 days from the date that such condition is satisfied or waived); or
- the Takeovers Panel further extends the Offer period.

Q: How will I know if the terms of the Offer change?
A: Under the Takeovers Code, notice of any variation or change in the Offer will be sent by Briscoe to each Shareholder, to Kathmandu, the Takeovers Panel and the NZSX in accordance with the Takeovers Code, unless the Offer has become unconditional and the variation in the Offer is to extend the period of the Offer.

Q: When will I receive payment and Briscoe Shares if I accept the Offer?
A: Assuming the Offer is successful, a cheque for the amount to which you will be entitled under the Offer will be paid to you not later than seven days after the later of 17 September 2015 (the initial closing date of the Offer), the date the Offer becomes unconditional and the date your acceptance was received by Briscoe. You will receive Briscoe Shares at the same time.

Q: Who pays for the costs Kathmandu has incurred during the Offer process?
A: Under the Takeovers Code Kathmandu can recover from Briscoe any expenses it properly incurs in relation to the Offer or the takeover notice. This includes any expenses Kathmandu's Directors incur while acting on behalf of, and in the interests of Kathmandu Shareholders in relation to the Offer or takeover notice (which the Directors can recover from Kathmandu).

Q: Are there any taxation implications of accepting the Offer?
A: As the Offer involves the acquisition of Shares from Australian, New Zealand and other international shareholders, the tax consequences are complex. You should seek your own independent taxation advice as to the taxation implications applicable to your specific circumstances. A general outline of the tax implications for Kathmandu Shareholders of accepting the Offer is set out in Section 4 of this Statement. As that outline is general in nature and does not take into account your individual circumstances, you should not rely on that outline as advice for your particular circumstances.

Q: If the Offer is successful, how will ownership in the combined group be split between Briscoe and Kathmandu Shareholders?
A: If the Offer completes and Briscoe moves to compulsory acquisition of Kathmandu, it is expected that existing Briscoe shareholders will hold approximately 70% of the shares in the combined group and existing Kathmandu Shareholders would hold approximately 30%[43] of the shares in the combined group. Rod Duke is currently the largest shareholder in Briscoe and it is expected that he would own approximately 55%[42] of the shares in the combined group.

Q: Will I receive the Kathmandu FY2015F final dividend?
A: The Offer is subject to a number of conditions, including that Kathmandu pay no dividends whatsoever. Kathmandu is scheduled to release its results for FY2015 on 29 September 2015 and, consistent with Kathmandu's past practice, would determine at that time whether to pay a final dividend based on such results.

Q: When can I expect Kathmandu's performance to return to pre FY2014 growth?
A: Expected sales growth in FY2016F will be approximately 11.0%, a significant improvement on FY2015F. See Section 3 for further details regarding the FY2016F financial performance.

Q: If I accept, will I receive the Briscoe FY2016F interim dividend?
A: In order to receive any Briscoe interim dividend, a Kathmandu Shareholder will need to be on the Briscoe register at the relevant dividend record date. The time at which a Kathmandu Shareholder will become a shareholder in Briscoe is dependent on when each Shareholder accepts the Offer as well as the time at which the Offer becomes unconditional. Accordingly there is no certainty that accepting Kathmandu Shareholders will participate in any interim dividend declared by Briscoe.

Q: What if I have further questions?
A: You should contact your legal, financial, taxation or other professional adviser. If you have further questions about the Offer or this document please call the Kathmandu Information Line on 1800 190 082 (toll free for callers within Australia), 0800 777 256 (toll free for callers within New Zealand, +64 9375 5998 (for callers outside Australia and New Zealand) Monday to Friday between 9.00am and 5.30pm (AEDT).

[43] Assumes 169.5m shares in Briscoe held by Rod Duke, 47.7m held by other Briscoe shareholders and 89.7m new shares issued as transaction consideration resulting in 306.8m pro forma shares in the combined group.

SECTION 3
Financial Information

Financial Information

Introduction

This Section contains a summary of key financial information of Kathmandu and its subsidiaries including the basis for preparation and Kathmandu management's discussion and analysis of financial performance. The financial information in this Section includes:

- Historical audited statements of financial performance for FY2014;
- Statements of financial performance for FY2015F. These comprise eleven months of unaudited actual trading results for Kathmandu (August 2014 to June 2015) and one month forecast operating results for Kathmandu; and
- The Directors forecast statement of financial performance for FY2016F.

Basis for Preparation

The financial information in this Section has been prepared in accordance with the recognition and measurement principles of Generally Accepted Accounting Practice in New Zealand, other mandatory professional reporting requirements and Kathmandu's adopted accounting policies.

The financial information in this Section is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with Generally Accepted Accounting Practice in New Zealand. Shareholders should refer to the Kathmandu audited financial statements for FY2014 for more detailed disclosures in relation to the historical financial performance, financial position and accounting policies of Kathmandu.

The Directors' forecast was prepared by Kathmandu management and adopted by the Board and represents the Directors' best estimate of Kathmandu's forecast financial performance for FY2015F and FY2016F. It is based on:

- The Directors' assessment of the present economic and operating conditions; and
- More specifically a number of material best estimate assumptions set out in this Section of the Statement as determined by the Directors.

The Directors consider that they have used reasonable care in preparing the financial information and consider the assumptions to be reasonable when taken as a whole. However this information is not fact, there is uncertainty surrounding any assumptions about future conditions and forecast performance and Kathmandu Shareholders are cautioned not to place undue reliance on the Directors' forecast.

Forecasts are by their nature subject to uncertainties and can be affected by unexpected events, many of which are outside the control of the Directors. Any variation to the assumptions on which the Directors' forecast has been prepared could be materially positive or negative to actual financial performance. Therefore the Directors cannot guarantee the achievement of the Directors' forecast.

The Directors' forecast should not be regarded as a representation or warranty with respect to its accuracy or the accuracy of the best estimate assumptions or that Kathmandu will achieve, or is likely to achieve, the particular results.

The Directors' forecast also takes no account of the adviser and other third party costs incurred to date, and to be incurred by Kathmandu in responding to the Offer, as Briscoe is required to reimburse Kathmandu for these costs. The expected reported statutory results for Kathmandu in FY2015F and FY2016F will include the full costs associated with responding to the Offer.

Unless otherwise stated, figures are denominated in New Zealand dollars.

Historical and Forecast Statement of Financial Performance

Consolidated Financial Performance

The below table summarises Kathmandu's actual and forecast financial performance for FY2014, FY2015F and FY2016F.

Kathmandu Financial Performance (NZ$ millions)

Jul-YE, NZ$m	FY2014	FY2015F	FY2016F
Store Numbers			
Opening number of stores	136	149	160
Net stores opened	13	11	4
Closing store numbers	**149**	**160**	**164**
Sales	392.9	409.4	454.6
Cost of sales	(144.8)	(157.3)	(172.2)
Gross profit	**248.1**	**252.1**	**282.4**
Gross margin %	*63.1%*	*61.6%*	*62.1%*
Rent	(44.5)	(52.8)	(60.6)
Other operating expenses	(129.1)	(152.0)	(158.6)
Total operating expenses	**(173.6)**	**(204.8)**	**(219.2)**
Total operating expenses as % of sales	*44.2%*	*50.0%*	*48.2%*
EBITDA	**74.5**	**47.3**	**63.2**
EBITDA margin %	*19.0%*	*11.6%*	*13.9%*
Depreciation and amortisation	(10.2)	(13.6)	(15.0)
EBIT	**64.3**	**33.7**	**48.2**
Interest and ax	(22.1)	(13.7)	(18.0)
Profit after tax	**42.2**	**20.0**	**30.2**
Non-recurring items	(1.0)	0.9	0.9
Profit after tax (excluding non-recurring items)	**41.2**	**20.9**	**31.1**

Commentary

FY2014

Same Store Sales growth of 4.2% at constant exchange rates along with 15 new stores opened (two stores closed) during the year underpinned the FY2014 result. Gross margin was maintained from FY2013. A period of reduced customer demand in the key June selling period and an exchange rate translation impact on EBIT of $5.8m adversely affected the FY2014 financial performance.

The non-recurring item is the settlement of an insurance claim for business interruption following the Christchurch earthquakes.

FY2015F

Kathmandu experienced an isolated period of challenging trading conditions during FY2015F. While sales are forecast to increase by 4.2% to NZ$409.4m in FY2015F, EBIT is expected to fall to NZ$33.7m (compared with NZ$64.3m in the prior year).

During Q1 2015, Kathmandu undertook an aggressive clearance initiative to clear excess FY2014 stock following lower than usual sales during Kathmandu's FY2014 winter sale period. The clearance of this excess inventory had an adverse impact on demand in the key Christmas/New Year and Easter sale periods, which was exacerbated by a decline in the general apparel and sporting/camping equipment market.

Kathmandu's winter sale promotion started on Tuesday 16 June 2015 compared to Tuesday 10 June 2014 and the total duration of the event will be two days shorter than FY2014. The four days of promotional trading at the end of FY2014 that were not repeated in FY2015F earned an incremental c. NZ$2.7m EBIT in FY2014.

The aggressive discounting combined with a weakening exchange rate resulted in a lower gross margin for the first three quarters of FY2015F. However, gross margins have since improved in line with the modified promotional strategy and reverted to historic levels in Q4 FY2015.

Kathmandu has an increased level of depreciation due to investments in core systems infrastructure necessary to support future growth and provide omni-channel retail capability; along with continued store rollout and future physical infrastructure requirements.

Kathmandu had a higher cost base in FY2015F. Major contributors to the increase in costs included the roll out of 10 new permanent stores in FY2015F, the full year impact of stores opened in FY2014 and costs associated with major IT and distribution projects.

As noted previously, Kathmandu's FY2015F reduction in earnings reflects subdued consumer sentiment and weakening exchange rates, which were exacerbated by Kathmandu's increased and one-off expenditure on strategic initiatives and business improvements undertaken throughout the year.

The forecast for July 2015 is calculated from actual sales to 31 July 2015 and forecast expenses and margin for the whole month (July).

Non-recurring items include transitional lease costs and provision for asset write offs incurred in relation to relocating the Australian distribution centre and Christchurch offices.

FY2016F

Management forecasts an improvement in the business in FY2016F, with sales increasing by 11.0% to NZ$454.6m and EBIT increasing by 43.0% to NZ$48.2m.

The key assumptions underlying the FY2016F forecast include:

- Sales increase of 11.0%. This is forecast to be driven by the full year benefit of the 10 stores that opened in FY2015F as well as FY2016F store network expansion (six new stores, two major relocations, two United Kingdom store closures);
- Same Store Sales growth is forecast at approximately 5% (at constant exchange rates);
- Gross margins are forecast to improve to normalised levels due to less clearance discounting offset by the continued impact of weakening exchange rates. The Directors have forecast the FY2016F gross margin to be 100bps less than the three year average from FY2012 to FY2014;
- Cost efficiencies of approximately NZ$7.0m over FY2015F have been included in FY2016F;
- Kathmandu has forecast the below exchange rates for FY2016F:
  - AUD/NZD exchange rate of A$0.900 per NZD (compared with A$0.914 per NZD in FY2015F);
  - GBP/NZD exchange rate of £0.45 per NZD (compared with £0.49 per NZD in FY2015F).

Segment Financial Performance

Australia

The below table summarises Kathmandu's actual and forecast financial performance in Australia, which is denominated in Australian dollars.

Kathmandu – Australian Results[44] (AU$m)

Jul-YE, AU$m	FY2014	FY2015F	FY2016F
Store Numbers			
Opening	87	100	110
Net stores opened	13	10	5
Closing store numbers	**100**	**110**	**115**
Sales	227.8	241.9	269.6
EBITDA	**40.8**	**25.4**	**31.3**
EBITDA margin %	*17.9%*	*10.5%*	*11.6%*
Same store sales growth (including online)	*6.9%*	*(3.5)%*	*5.1%*
Contribution from new stores	*7.9%*	*9.7%*	*6.4%*
Total sales growth	**14.8%**	**6.2%**	**11.5%**

Kathmandu is forecast to grow its Australian sales in FY2015F by 6.2% to A$241.9m and a further 11.5% in FY2016F to A$269.6m.

The Australian business has historically experienced strong Same Store Sales, with growth of 6.9% in FY2014. However, the pace of Same Store Sales growth is forecast to reduce to 5.1% in FY2016F.

Despite improving brand awareness and increased Summit Club membership, older stores in the network are reaching maturity. Accordingly, the business has opened 10 new Australian stores in FY2015F and is forecast to open a further five in Australia in FY2016F, which will drive sales growth of 6.4%.

EBITDA margins are expected to increase in FY2016F due to a slight improvement in gross margin combined with operating cost efficiencies.

[44] Same Store Sales growth is calculated on a financial year basis vs normally reported comparable weeks. Growth from new stores includes the impact of store opened during the prior period.

New Zealand

The below table summarises Kathmandu's actual and forecast financial performance in New Zealand, which is denominated in New Zealand dollars.

Kathmandu – New Zealand Results[45] (NZ$m)

Jul-YE, NZ$m	FY2014	FY2015F	FY2016F
Store Numbers			
Opening	44	45	46
Net stores opened	1	1	1
Closing store numbers	**45**	**46**	**47**
Sales	141.0	139.0	148.0
EBITDA	**34.8**	**26.3**	**34.3**
EBITDA margin %	*24.7%*	*18.9%*	*23.2%*
Same store sales growth (including online)	*(0.1)%*	*(2.0)%*	*5.0%*
Contribution from new stores	*3.0%*	*0.6%*	*1.5%*
Total sales growth	**2.9%**	**(1.4)%**	**6.5%**

Kathmandu's FY2015F New Zealand sales are forecast to be 1.4% below FY2014. This was primarily due to the timing of winter sale being delayed by one week.

In FY2016F Kathmandu expect sales to increase 6.5% to NZ$148.0m which is due to targeted promotional activity and the positive effect from the final days of winter sale resulting in Same Stores Sales growth. Kathmandu plans to open one new store in FY2016F bringing the total number of stores to 47.

FY2016F EBITDA margins are forecast to increase due to an improvement in gross margin combined with operating cost efficiencies.

[45] Same Store Sales growth is calculated on a financial year basis vs normally reported comparable weeks. Growth from new stores includes the impact of store opened during the prior period.

United Kingdom

The below table summarises Kathmandu's actual and forecast financial performance in the United Kingdom, which is denominated in pounds.

Kathmandu - United Kingdom Results[46] (GBPm)

Jul-YE, GBPm	FY2014	FY2015F	FY2016F
Store Numbers			
Opening	5	4	4
Net stores opened	(1)	-	(2)
Closing store numbers	**4**	**4**	**2**
Sales	2.4	2.8	3.1
EBITDA	**(1.5)**	**(2.4)**	**(1.7)**
EBITDA margin %	*NM*[47]	*NM*	*NM*
Same Store Sales growth (including online)	*12.7%*	*15.8%*	*21.8%*

In FY2016F management plans to improve Kathmandu's profitability in the United Kingdom by closing two stores and instead focus on its most profitable stores, continue to drive online channels and explore further capital light growth opportunities. Kathmandu forecasts FY2016F sales to increase by 10.7% to £3.1m, which is an increase of 21.8% on a same store basis (including online).

[46] Same Store Sales growth is calculated on a financial year basis vs normally reported comparable weeks. Growth from new stores includes the impact of store opened during the prior period.
[47] NM refers to not meaningful.

SECTION 4
Tax Implications

Tax Implications

Introduction

The following is a general summary of the New Zealand and Australian income tax, GST and stamp duty consequences relevant to Kathmandu Shareholders who accept the Offer and where the transaction is completed.

This information is relevant only to those Kathmandu Shareholders who hold their Kathmandu Shares on capital account. This information relates only to Kathmandu Shares and not to the performance rights that have been granted by Kathmandu.

This Section does not consider the New Zealand or Australian tax consequences for Kathmandu Shareholders:

- who hold their Kathmandu Shares as trading stock or as revenue account assets;
- that may be subject to special tax rules in Australia, such as financial institutions, insurance companies, partnerships, tax exempt organisations, trusts, superannuation funds or temporary residents; or
- who are subject to the taxation of financial arrangements rules in Australia in relation to gains and losses on their Kathmandu Shares.

This Section includes generic comments only regarding the Offer as no due diligence has been completed on Briscoe in this situation and therefore no opinion is expressed on any tax risks in Briscoe's companies.

Tax Implications for New Zealand Shareholders

Kathmandu will likely forfeit imputation credits on completion

Ultimate Shareholder continuity of at least 66% must be maintained to carry forward imputation credits. For New Zealand Shareholders the benefit of imputation credits is that the value of the 28% New Zealand company tax paid by Kathmandu is passed through to the Shareholders.

The takeover would result in a change in Kathmandu Shareholder continuity of approximately 70%. Therefore, we believe any imputation credit balances of Kathmandu and its subsidiaries at the date of the transaction would be forfeited (estimated at approximately NZ$1.77 million at the date of this Statement).

New Zealand GST considerations

No GST should be payable by Kathmandu Shareholders in respect of their acceptance of the Offer.

Kathmandu Shareholders may be charged GST on third party costs (such as adviser fees) they incur and which relate to their participation in the Offer. Kathmandu Shareholders may be entitled to input tax credits for such costs, but should seek independent advice in relation to their specific circumstances.

Tax Implications for Australian Shareholders

The disposal of Kathmandu Shares will constitute a CGT event for Australian tax purposes[48]

For Kathmandu Shareholders who hold their Kathmandu Shares on capital account, the acceptance of the Offer and where the transaction is completed will result in the disposal of their Kathmandu Shares. This disposal will constitute a CGT event.

The effective date of disposal for CGT purposes will be the time at which the Offer becomes unconditional (the Condition Date as defined in the Offer document).

The disposal of Kathmandu Shares may result in a capital gain or capital loss for the Kathmandu Shareholder. A capital gain will arise if the Kathmandu Shareholder's capital proceeds exceed the cost base of their Kathmandu Shares. A capital loss will arise if the Kathmandu Shareholder's capital proceeds are less than the reduced cost base of their Kathmandu Shares.

[48] Kathmandu Shares were first issued as part of the IPO of Kathmandu in November 2009. Therefore, Kathmandu Shares will not be pre-CGT (i.e. acquired before 20 September 1985) or subject to indexation (acquired on or before 21 September 1999).

The capital proceeds received by a Kathmandu Shareholder who accepts the Offer and where the transaction is completed will include the amount of cash received (the 'cash component' of the proceeds) as well as the market value of the Briscoe Shares received (the 'share component' of the proceeds), determined at the time of the disposal of the Kathmandu Shares, converted to AUD at that date.

The cost base or reduced cost base of Kathmandu Shares should broadly equal the money that a Kathmandu Shareholder has paid or was required to pay to acquire its Kathmandu Shares, plus certain other amounts associated with the acquisition of the Kathmandu Shares and disposal to Briscoe, such as brokerage or stamp duty (in AUD). Note that the cost base / reduced cost base of the Kathmandu Shares will need to be allocated as between the 'share component' of the proceeds from the transaction and the 'cash component' of the proceeds from the transaction (on a proportionate basis).

There should be an exemption for non-resident Shareholders

Kathmandu Shareholders who are not Australian tax residents and do not have a permanent establishment in Australia in relation to their investment in Kathmandu, and who hold their Kathmandu Shares on capital account, should not be subject to Australian CGT on the disposal of their Kathmandu Shares.

This is on the basis that the Kathmandu Shares are not considered to be "taxable Australian property" (broadly, this is because less than 50% of Kathmandu's value is attributable to direct or indirect interests in Australian real property).[49]

Scrip for scrip roll over may be available for certain Kathmandu Shareholders to defer part of their capital gain

Scrip for scrip roll over relief may be available to Kathmandu Shareholders who derive a capital gain as a result of the disposal of their Kathmandu Shares (roll over relief is not available where a capital loss arises).

Scrip for scrip roll over relief will only be available to Kathmandu Shareholders if the transaction results in Briscoe becoming the owner of 80% or more of the voting shares in Kathmandu.[50]

Scrip for scrip roll over relief will only be available in respect of the capital gain related to the 'Share component' of the proceeds (roll over relief is not available in respect of a capital gain related to the 'cash component' of the proceeds).

Kathmandu Shareholders who intend to apply scrip for scrip roll over (where eligible) will be required to 'elect' to do so. The effect of the roll over (to the extent that it is available, i.e. on the 'Share component'), is that the Kathmandu Shares are in effect 'replaced' by the Briscoe Shares (and deemed to have the same tax cost base, and acquired on the same date).

We note that the scrip for scrip roll over rules are complex, and require taxpayers to meet certain strict requirements. In this context, it is usual for a company to obtain a class ruling from the ATO to confirm the position. Kathmandu Shareholders should seek independent professional advice regarding whether scrip for scrip roll over relief can be obtained in their own individual circumstances.

CGT discount may be available for some Shareholders

Certain Kathmandu Shareholders (excluding corporate Shareholders) may be eligible to apply a 'CGT discount' (of up to 50% depending on whether the Shareholder is an individual, trust or partnership) to reduce the capital gain arising from the disposal of Kathmandu Shares (including to the extent that roll over relief was not available or not elected). The CGT discount is only available where the Kathmandu Shares had been owned for at least 12 months prior to the disposal.

Kathmandu Shareholders should seek independent professional advice regarding their eligibility for the CGT discount in their personal circumstances.

[49] Kathmandu does not directly or indirectly hold any Australian real property or rights thereto.
[50] Based on the terms of the Offer, the takeover transaction will not proceed unless the 90% Minimum Acceptance Condition is met (but this condition can be waived by Briscoe).

Takeover is likely to diminish access to franking credits for Australian resident Shareholders

Briscoe may declare dividends on Briscoe Shares in the future. On the basis that Briscoe is a New Zealand resident company for tax purposes (and not an Australian resident for tax purposes), it will not be able to attach Australian franking credits to such dividends unless it elects to become a "New Zealand franking company" pursuant to the trans-Tasman imputation regime (and all entities interposed between it and Kathmandu also elect in). In this context, Briscoe will need to evaluate the merits of electing into the Trans-Tasman imputation regime having regard to the relevant commercial parameters (including the ratio of Australia to New Zealand resident shareholders, and the extent of franking credits able to be generated by the group).

The extent to which franking credits may be attached to dividends in the future (assuming the trans-Tasman imputation regime is elected), will depend on the relative profitability of the Australian and New Zealand operations. Specifically, where the quantum of Australian franking credits relative to the group's overall profitability is reduced (which may be likely post Briscoe's takeover), the availability of franking credits to Australian resident shareholders is likely to be diminished.

Having regard to the above, for Australian resident shareholders, the extent to which Briscoe is able to distribute franked dividends in the future is likely to be important (noting that as Kathmandu Shareholders, Australian residents were able to receive franked dividends in the past).

In addition, in order for Australian resident shareholders to benefit from any franking credits attached to any dividends paid by Briscoe, the shareholders must satisfy the "holding period rule" in respect of Briscoe's Shares. Broadly the holding period rule provides that Briscoe Shares must be held at risk for a continuous period of at least 45 days during the relevant qualification period, otherwise the shareholder is not entitled to the benefit of any franking credits attached to such dividends.

Australian Shareholders may be subject to New Zealand withholding tax

Australian resident Shareholders receiving dividends from Briscoe in the future may be subject to New Zealand withholding tax in respect of the dividends paid to the extent that they are not fully imputed (although a foreign income tax offset should be available in Australia). The rules work slightly differently for greater than 10% shareholders and less than 10% Shareholders but there is value to both in being able to attach New Zealand imputation credits to the dividends.

Australian stamp duty considerations

The issue of Briscoe Shares to Kathmandu Shareholders arising from their acceptance of the Offer, should not give rise to any Australian stamp duty if, at the time of the issue of the Briscoe Shares, Briscoe does not (directly or indirectly) have any landholdings (meaning any interest in land, including any leasehold interest) in any Australian State or Territory.

Australian GST considerations

Kathmandu Shareholders may be charged GST on third party costs (such as adviser fees) they incur and which relate to their participation in the Offer. Kathmandu Shareholders may be entitled to input tax credits for such costs, but should seek independent advice in relation to their specific circumstances.

SECTION 5

Takeovers Code Disclosures


Kathmandu

Contents

Note:
The numbering of the paragraph headings in this Section follow the section numbers in Schedule 2 to the Takeovers Code.

Takeovers Code Disclosures

The following information has been prepared by Kathmandu under Rule 46 and Schedule 2 of the Takeovers Code in response to the Offer from Briscoe.

1 Date

1.1 This Statement is dated 6 August 2015.

2 Offer

2.1 The proposed Offer is a full takeover offer by Briscoe to purchase all of the fully paid ordinary shares in Kathmandu not already held or controlled by Briscoe as at the date of the Offer. Briscoe already owns 19.9% of the Shares in Kathmandu. If the Offer is successful Briscoe will hold 100% of the Shares in Kathmandu, unless it elects to waive the 90% Minimum Acceptance Condition contained in paragraph 4 of the Offer, in which case Briscoe may hold more than 50% and less than 90% of the Shares in Kathmandu.

2.2 The terms of the Offer are set out in the offer document dated 22 July 2015 which has been sent to Shareholders by Briscoe.

3 Target Company

The name of the target company is Kathmandu Holdings Limited.

4 Directors of Kathmandu

The names of the Directors of Kathmandu are:

David Edward Kirk (Chairman)
Edward John Harvey
Sandra Veronica McPhee
Christine Cross
John Lindsay Holland
Mark Archibald Todd
Xavier Simonet

5 Ownership of equity securities of Kathmandu

5.1 Schedule 1 to this Statement sets out the number, designation, and the percentage of any class of equity securities of Kathmandu held or controlled at the date of this Statement by:

(a) each director or senior officer[51] of Kathmandu and their associates; and

(b) any other person holding or controlling 5% or more of any class of equity securities of Kathmandu, to the knowledge of Kathmandu.

Except as set out in Schedule 1, no other Director or senior officer of Kathmandu or their associates holds or controls any class of equity securities of Kathmandu.

5.2 Schedule 2 to this Statement sets out the number and issue price of equity securities of Kathmandu:

(a) that have, during the two year period immediately preceding the date of this Statement, been issued to the Directors or senior officers of Kathmandu or their associates; or

(b) in which the Directors or senior officers of Kathmandu or their associates have, during the two year period immediately preceding the date of this Statement, obtained a beneficial interest under any employee share scheme or other remuneration arrangement.

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[51] The senior officers of Kathmandu for the purposes of this Statement are Xavier Simonet (Chief Executive Officer), Mark Todd (Chief Operating Officer), Reuben Casey (Chief Financial Officer), Michelle Adams (General Manager, Product), Rebecca Edwards (General Manager, Group Human Resources), Alison Evans (General Manager - Retail Stores, Australia and New Zealand), Caleb Nicholson (General Manager, Supply Chain), Paul Stern (General Manager, Marketing, International and Online) and Jolann Van Dyk (Chief Information Officer).

6 Trading in Kathmandu equity securities

Schedule 3 to this Statement sets out the number and designation of equity securities of Kathmandu acquired or disposed of by a Director or senior officer of Kathmandu or their associates, or any other person holding or controlling 5% or more of any class of equity securities of Kathmandu, during the six month period before the Reference Date (being the latest practicable date before the date of this Statement), including the consideration for, and the date of, each such transaction.

Except as set out in Schedule 3:

(a) no director or senior officer of Kathmandu or their associates has acquired or disposed of equity securities of Kathmandu; nor

(b) any other person holding or controlling 5% or more of any class of equity securities of Kathmandu,

during the six month period before the Reference Date. Kathmandu's assessment set out in paragraph (b) above is based on the substantial security holder notices that have been filed with NZSX and ASX and on responses to questionnaires circulated to persons who held or controlled 5% or more of the ordinary shares in Kathmandu as at the Reference Date.

7 Acceptance of Offer

7.1 No Directors or senior officers of Kathmandu, or any of their associates, has accepted or indicated a current intention to accept the Offer in respect of any of the equity securities held or controlled by them.

8 Ownership of equity securities of Briscoe

8.1 Neither Kathmandu or any of its Directors or senior officers or any associates hold or control any class of securities of Briscoe.

9 Trading in equity securities of Briscoe

Neither Kathmandu, nor any Director or senior officer of Kathmandu or any of their associates, has traded in equity securities of Briscoe during the six month period before the Reference Date.

10 Arrangements between Briscoe and Kathmandu

No agreements or arrangements (whether legally enforceable or not) have been made, or are proposed to be made, between Briscoe (or any associates of Briscoe) and Kathmandu (or any related company of Kathmandu) in connection with, in anticipation of, or in response to, the Offer.

11 Relationship between Briscoe, and Directors and senior officers of Kathmandu

11.1 No agreements or arrangements (whether legally enforceable or not) have been made, or are proposed to be made, between Briscoe (or any associates of Briscoe) and any of the Directors or senior officers of Kathmandu (or any related company of Kathmandu) (including particulars of any payment or other benefit proposed to be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office) in connection with, in anticipation of, or in response to, the Offer.

11.2 None of the Directors or senior officers of Kathmandu are also directors or senior officers of Briscoe, or any related company of Briscoe.

12 Agreements between Kathmandu, and Directors and senior officers

No agreements or arrangements (whether legally enforceable or not) have been made, or are proposed to be made, between Kathmandu (or any related company of Kathmandu) and any of the Directors or senior officers of Kathmandu or any related company of Kathmandu or their associates, under which a payment or other benefit may be made or given by way of compensation for loss of office, or as to their remaining in or retiring from office in connection with, in anticipation of, or in response to, the Offer.

13 Interests of Directors and senior officers of Kathmandu in material contracts of Briscoe

No Director or senior officer of Kathmandu or their associates has any interest in any contract to which Briscoe, or any related company of Briscoe, is a party.

13A *Interests of substantial security holders of Kathmandu in material contracts of Briscoe (or its related companies)*

To the knowledge of the Directors or the senior officers of Kathmandu, there is no person who holds or controls 5% or more of any class of equity securities of Kathmandu and has an interest in any material contract to which Briscoe, or any related company of Briscoe, is a party.

14 Additional information

In the opinion of the Directors of Kathmandu, no additional information, to the knowledge of Kathmandu, is required to make the information in the Offer document correct or not misleading.

15 Recommendation

15.1 *Committee of Independent Directors*

Following receipt of the takeover notice issued by Briscoe on 1 July 2015 advising of its intent to make a full takeover offer, a committee of independent Directors, comprising David Kirk, John Harvey and John Holland was formed to consider, and oversee the response to, the Offer.

The Committee appointed Grant Samuel to provide a report on the merits of the Offer pursuant to Rule 21 of the Takeovers Code.

15.2 *Board Recommendation*

The Directors of Kathmandu recommend Shareholders **REJECT** the Offer. The reasons for this recommendation are set out in Section 1 of this Statement.

16 Actions of Kathmandu

16.1 There are no material agreements or arrangements (whether legally enforceable or not) of Kathmandu and its related companies entered into as a consequence of, in response to, or in connection with, the Offer.

16.2 There are no negotiations underway as a consequence of, or in response to, or in connection with, the Offer that relate to or could result in:

(a) an extraordinary event such as a merger, amalgamation, or reorganisation involving Kathmandu or any of its related companies; or

(b) the acquisition or disposition of material assets by Kathmandu or any of its related companies; or

(c) an acquisition of equity securities by, or of Kathmandu or any related company of Kathmandu; or

(d) any material change in the equity securities on issue, or policy relating to distributions, of Kathmandu.

17 Equity securities of Kathmandu

17.1 Kathmandu has 201,484,583 ordinary shares on issue. The rights of holders of ordinary shares in respect of capital, distributions and voting are as follows:

(a) the right to an equal share with other Shareholders in dividends authorised by the Board of Kathmandu;

(b) the right to an equal share with other Shareholders in the distribution of surplus assets on liquidation of Kathmandu; and

(c) subject to the prohibitions contained in the NZSX and ASX Listing Rules and Kathmandu's constitution, the right to cast one vote on a show of hands or the right to cast one vote for each Share held on a poll, in each case at a meeting of Shareholders on any resolution, including a resolution to:

(i) appoint or remove a director or auditor;

(ii) alter Kathmandu's constitution;

(iii) approve a major transaction;

(iv) approve an amalgamation of Kathmandu; and

(v) put Kathmandu into liquidation.

17.2 In addition, Kathmandu has issued 728,179 performance rights under its long term incentive plan to its senior managers. The performance rights will vest, and subject to the terms of the long term incentive plan, Kathmandu must allocate to the relevant senior managers, the number of ordinary shares in Kathmandu specified in the relevant senior managers letter of offer if the specified performance conditions are met during the specified performance period. The performance rights are not "equity securities" for the purposes of the Takeovers Code and therefore are not subject to the Offer.

18 Financial information

18.1 Offerees are entitled to obtain from Kathmandu a copy of Kathmandu's most recent annual report (being the annual report for the year ended 31 July 2014). A copy of the annual report is also available from Kathmandu's website at www.kathmanduholdings.com or by making a written request to:

Kathmandu Holdings Limited
11 Mary Muller Drive
Heathcote
Christchurch
Email: reuben.casey@kathmandu.co.nz

18.2 A copy of Kathmandu's most recent half-yearly report (being the half yearly report for the six month period ended 31 January 2015) since the date of Kathmandu's last annual report is attached to this Statement.

18.3 No interim report of Kathmandu has been issued since its most recent half-yearly report.

18.4 The financial position of Kathmandu as at 31 July 2014 and certain prospective information for the financial year(s) ending 31 July 2015 and 31 July 2016 is contained in the Independent Adviser's Report. Other than as set out therein:

(a) there have been no known material changes in the financial or trading position or prospects of Kathmandu since the 31 July 2014 annual report; and

(b) there is no other information about the assets, liabilities, profitability and financial affairs of Kathmandu that could reasonably be expected to be material to the making of a decision by Shareholders to accept or reject the Offer.

19 Independent advice on merits of Offer

Grant Samuel, as independent adviser, has prepared a report on the merits of the Offer as required by Rule 21 of the Takeovers Code. A copy of Grant Samuel's full Independent Adviser's Report, including a statement of the qualifications of Grant Samuel and a statement that Grant Samuel has no conflict of interest that could affect its ability to provide an unbiased report, is contained in the Appendix to this Statement.

19A *Different classes of securities*
Not applicable. The Offer only relates to Kathmandu's ordinary Shares.

20 Asset valuation

20.1 No information in this Statement refers to a valuation of any asset of Kathmandu.

21 Prospective financial information

21.1 The Independent Adviser's Report refers to prospective financial information for Kathmandu for the year(s) ending 31 July 2015 and 31 July 2016. The principal assumptions on which such prospective financial information is based is set out in that report. Section 1 and 3 of this Statement also refer to prospective financial information for Kathmandu for the years ending 31 July 2015 and 31 July 2016. The principal assumptions on which such prospective financial information is based is set out in section 3 of this Statement.

23 Market prices of quoted equity securities under Offer

23.1 The closing price on the NZSX of the Shares subject to the Offer on:

(a) 31 July 2015, being the Reference Date, was NZ$1.700 per Share; and

(b) 30 June 2015, being the last day on which the NZSX was open for business before the date on which Kathmandu received Briscoe's takeover notice, was NZ$1.750 per Share. It should be noted that the closing price on the NZSX for such Shares on 29 June 2015 was NZ$1.390. Early on 30 June 2015 Briscoe announced that it intended to lodge a takeover notice imminently for all of the Shares in Kathmandu. This announcement resulted in a material increase in the price of the Shares on NZSX on 30 June 2015.

23.2 The highest and lowest closing market price of the Shares on the NZSX (and the relevant dates) during the six months before 1 July 2015, being the date on which Kathmandu received Briscoe's takeover notice were as follows:

a) highest closing market price was NZ$2.16 on 2 January 2015; and

b) lowest closing market price was NZ$1.270 on 18 June 2015.

23.3 The closing price on the ASX of the Shares subject to the Offer on:

(a) 31 July 2015, being the Reference Date, was AU$1.515 per Share; and

(b) 30 June 2015, being the last day on which the ASX was open for business before the date on which Kathmandu received Briscoe's takeover notice, was AU$1.57 per Share. It should be noted that the closing price on the ASX for such Shares on 29 June 2015 was AU$1.250. Early on 30 June 2015 Briscoe announced that it intended to lodge a takeover notice imminently for all of the Shares in Kathmandu. This announcement resulted in a material increase in the price of the Shares on ASX on 30 June 2015.

23.4 The highest and lowest closing market price of the Shares on the ASX (and the relevant dates) during the six months before 1 July 2015, being the date on which Kathmandu received Briscoe's takeover notice were as follows:

a) highest closing market price was AU$2.04 on 5 January 2015; and

b) lowest closing market price was AU$1.11 on 18 June 2015.

23.5 During the six month period referred to above, Kathmandu did not issue any equity securities, make any changes in the equity securities on issue or make any distribution which could have affected the market prices of the Shares referred to above, except as set out below.

(a) On 24 March 2015, Kathmandu announced an interim dividend for the year ended 31 July 2015 of NZ$0.03 per Share. The record date for the dividend was 5 June 2015.

23.6 The Board believes that other than matters set out elsewhere in this Statement and/or in the Independent Adviser's Report, there is no information about the market price of securities that could reasonably be expected to be material to the making of a decision by Shareholders to accept or reject the Offer.

24 Other information

The Board considers that there is no other information not required to be disclosed elsewhere in this Statement that could reasonably be expected to be material to the making of a decision by the offerees to accept or reject the Offer

25 Approval of this Statement

The Board of Directors of Kathmandu have approved the contents of this Statement.

26 Certificate

26.1 To the best of our knowledge and belief, after making proper enquiry, the information contained in or accompanying this Statement is, in all material respects, true and correct and not misleading, whether by omission of any information or otherwise, and includes all the information required to be disclosed by Kathmandu under the Takeovers Code.

David Kirk
Chairman

Director of Kathmandu Holdings Limited

John Harvey
Director

Director of Kathmandu Holdings Limited

Xavier Simonet
Chief Executive Officer of Kathmandu Holdings Limited

Reuben Casey
Chief Financial Officer of Kathmandu Holdings Limited

Schedule 1 – Ownership of equity securities in Kathmandu (Paragraph 5)

Directors[52]

Name of Person/Entity that Shares are Registered in	Shares held by Person/Entity		Name of Kathmandu's Directors that hold or control these Shares	Name of Kathmandu's Directors that are associated with this Person/Entity
	Number	Percentage		
DE & BJ Kirk as Trustees for the Kirk Family Superannuation Fund	62,150	0.03%	David Kirk	N/A
JBWere (NZ) Nominees Limited as custodian for the J L Holland No. 2 Family Trust of which John Lindsay Holland is a trustee and a discretionary beneficiary	40,000	0.02%	John Holland	N/A
John Lindsay Holland and Andrew Nicholas Crosbie Woods as trustees of the J L Holland Family Trust of which John Lindsay Holland is a discretionary beneficiary	82,033	0.04%	John Holland	N/A
Mark Archibald Todd	241,494	0.12%	Mark Todd	N/A
David Alan Kendall, Jill Marjorie Todd & Mark Archibald Todd (Todd Family Trust)	330,000	0.16%	Mark Todd	N/A
K & S McPhee Nominees Pty Limited	58,823	0.03%	Sandra McPhee	N/A
Edward John Harvey and Susan Shirley Harvey	51,563	0.03%	John Harvey	N/A

[52] The above information has been prepared as at the date of this Statement based on relevant interest disclosure notices filed at NZSX and ASX and based on responses to questionnaires circulated to all the Directors after receipt of Briscoe's Takeover Notice.

Senior Officers[53]

Name of Person/Entity that Shares are Registered in	Shares held by Person/Entity		Name of Kathmandu's Senior Officers that hold or control these Shares	Name of Kathmandu's Senior Officers that are associated with this Person/Entity
	Number	Percentage		
Caleb Nicholson & Sarah Jane Mitchell & David Coates – Heritage Family Trust	95,811	0.05%	Caleb Nicolson – General Manager Supply Chain	N/A
Stern Chan Pty Ltd	22,000	0.01%	Paul Stern – General Manager Marketing, International and Online	N/A
Paul Mark Stern & Pui Chan Chan	111,598	0.06%	Paul Stern – General Manager Marketing, International and Online	N/A
Paul Stern	19,910	0.01%	Paul Stern – General Manager Marketing, International and Online	N/A
Reuben Casey	40,000	0.02%	Reuben Casey – Chief Financial Officer and Company Secretary	N/A
Michelle Adams	102,015	0.05%	Michelle Adams – General Manager, Product	N/A

[53] The above information has been prepared as at the date of this Statement based on relevant interest disclosure notices filed at NZSX and ASX and based on responses to questionnaires circulated to all senior officers after receipt of Briscoe's Takeover Notice.

Substantial Security Holders[54]

Name of Shareholder or person holding or controlling 5% or more of Kathmandu's Shares	Number of Shares held or controlled	Percentage	Date of last Substantial Security Holder Notice
Accident Compensation Corporation[55]	14,538,441	7.22%	2 July 2015
Briscoe Group Limited[56]	40,095,432	19.90%	30 June 2015
The Goldman Sachs Group Inc.[57]	25,932,630	12.87%	22 May 2015
National Nominees Limited as Custodian for UniSuper Limited[58]	15,185,721	7.54%	25 May 2015

[54] The above information has been prepared as the date of this Statement and, except where expressly stated otherwise in these notes, has been based on substantial security holder notices filed with NZSX and ASX, Kathmandu's Share register at 6 July 2015, and responses to a questionnaire circulated by Kathmandu after receipt of Briscoe's Takeover Notice.

[55] Includes Nicholas Bagnall, Guy Elliffe, Paul Robertshawe, Blair Tallott, Blair Cooper, Jason Familton and Bevan Flack (employees and portfolio managers of Accident Compensation Corporation) who have the right to control the voting rights of shares. Jason Familton also holds an additional 16,000 ordinary shares.

[56] The information has been based on the information in the Offer.

[57] This includes The Goldman Sachs Group Inc's associated companies listed in Schedule 4.

[58] National Nominees Limited holds the ordinary shares as custodian for UniSuper Limited. Ex Blackrock Aust Equities, Challenger Small Companies, Goldman Sachs AM Industrial Aust, Kinetic Australian Equities and QIQ Small Caps Industrial act as investment managers for UniSuper Ltd and have disclosed a relevant interest in such Shares.

Schedule 2 – Issue of equity securities in Kathmandu (Paragraph 5)

Note: The information in this Schedule is for the two year period ending on the date of this Statement i.e. from 6 August 2013 to 6 August 2015.

Directors[59]

Name of Person/Entity that Shares are Registered in	Equity Securities issued to Person/Entity		Name of Kathmandu's Directors that hold or control these Shares	Name of Kathmandu's Directors that are associated with this Person/Entity
	Number	Issue Price per Share and Date of issue		
Mark Todd	20,833	Nil consideration (pursuant to Kathmandu's Long Term Incentive Plan). Issued on 18 December 2013	Mark Todd	N/A
	11,815	Nil consideration (pursuant to Kathmandu's Long Term Incentive Plan). Issued on 18 December 2013	Mark Todd	N/A
	160,131	NZ$2.13/AU$1.70 pursuant to Kathmandu's Executive Share Option Plan. Issued on 13 May 2014	Mark Todd	N/A
	17,460	Nil consideration (pursuant to Kathmandu's Long Term Incentive Plan). Issued on 17 December 2014	Mark Todd	N/A
	9,617	Nil consideration (pursuant to Kathmandu's Long Term Incentive Plan). Issued on 17 December 2014	Mark Todd	N/A
	16,158	Nil consideration (pursuant to Kathmandu's Long Term Incentive Plan). Issued on 17 December 2014	Mark Todd	N/A

[59] The above information has been prepared as at the date of this Statement based on relevant interest disclosure notices, allotment of security notices filed at NZSX and ASX and responses to questionnaires circulated to all Directors after receipt of Briscoe's Takeover Notice.

Senior Officers[60]

Name of Person/Entity that Shares are Registered in	Equity Securities issued to Person/Entity		Name of Kathmandu's Senior Officers that hold or control these Shares	Name of Kathmandu's Senior Officers that are associated with this Person/Entity
	Number	Issue Price per Share and Date of issue		
Paul Stern	8,759	Nil consideration (pursuant to Kathmandu's Long Term Incentive Plan). Issued on 18 December 2013	Paul Stern	N/A
	7,341	Nil consideration (pursuant to Kathmandu's Long Term Incentive Plan). Issued on 17 December 2014	Paul Stern	N/A
Caleb Nicholson	5,952	Nil consideration (pursuant to Kathmandu's Long Term Incentive Plan). Issued on 18 December 2013	Caleb Nicholson	N/A
	46,554	(NZD)$2.13/(AUD)$1.70 pursuant to Kathmandu's Executive Share Option Plan. Issued on 15 September 2014	Caleb Nicholson	N/A
	4,988	Nil consideration (pursuant to Kathmandu's Long Term Incentive Plan). Issued on 17 December 2014	Caleb Nicholson	N/A
Michelle Adams	6,131	Nil consideration (pursuant to Kathmandu's Long Term Incentive Plan). Issued on 18 December 2013	Michelle Adams	N/A
	80,266	(NZD)$2.13/(AUD)$1.70 pursuant to Kathmandu's Executive Share Option Plan. Issued on 22 September 2014	Michelle Adams	N/A
	5,138	Nil consideration (pursuant to Kathmandu's Long Term Incentive Plan). Issued on 17 December 2014	Michelle Adams	N/A

[60] The above information has been prepared as at the date of this Statement based on relevant interest disclosure notices, allotment of security notices filed at NZSX and ASX and responses to questionnaires circulated to all senior officers after receipt of Briscoe's Takeover Notice..

Schedule 3 – Trading in Kathmandu equity securities (Paragraph 6)

Note: This Schedule is for the six month period from 30 January 2015 to 30 July 2015.

Directors[61]

Name	Number of equity securities	Designation of equity security	Acquisition or disposal	Consideration per equity security (weighted average in $)	Date
John Holland JBWere (NZ) Nominees Limited as custodian for the J L Holland No. 2 Family Trust of which John Lindsay Holland is a trustee and a discretionary beneficiary	20,000	Ordinary Shares	Acquisition	NZ$ $1.48	4/02/2015
David Kirk (DE & BJ Kirk as Trustees for the Kirk Family Superannuation Fund)	37,850	Ordinary Shares	Acquisition	AU$ $1.33	6/02/2015

Senior Officers[62]

Name	Number of equity securities	Designation of equity security	Acquisition or disposal	Consideration per equity security (weighted average in $)	Date
Reuben Casey	20,685	Ordinary Shares	Acquisition	NZ$ $1.45	10/02/2015
Paul Stern (through Stern Chan Pty Limited)	15,000	Ordinary Shares	Acquisition	AU$ $1.35	6/02/2015
Caleb Nicholson (through Caleb Nicholson & Sarah Jane Mitchell & David Coates – Heritage Family Trust)	20,000	Ordinary Shares	Acquisition	NZ$ $1.44	10/02/2015

[61] The above information has been prepared based on relevant interest disclosure notices filed at NZSX and ASX and responses to questionnaires circulated to all Directors after receipt of Briscoe's Takeover Notice.
[62] The above information has been prepared based on relevant interest disclosure notices filed at NZSX and ASX and responses to questionnaires circulated to all senior officers after receipt of Briscoe's Takeover Notice.

Substantial Security Holders[63]

Name	Number of equity securities	Designation of equity security	Acquisition or disposal	Consideration per equity security (weighted average in $)	Date[64] (Week Commencing)
The Goldman Sachs Group Inc[65]	1,017,599	Ordinary Shares	Acquisition	NZ$1.994	26/01/2015 to 01/02/2015
	280,810	Ordinary Shares	Disposal	NZ$1.987	26/01/2015 to 01/02/2015
	12,822,158	Ordinary Shares	Acquisition	NZ$1.472	02/02/2015 to 08/02/2015
	4,251,048	Ordinary Shares	Disposal	NZ$1.488	02/02/2015 to 08/02/2015
	7,613,497	Ordinary Shares	Acquisition	NZ$1.441	09/02/2015 to 15/02/2015
	593,602	Ordinary Shares	Disposal	NZ$1.417	09/02/2015 to 15/02/2015
	5,458,397	Ordinary Shares	Acquisition	NZ$1.431	16/02/2015 to 22/02/2015
	32,364	Ordinary Shares	Disposal	NZ$1.554	11/03/2015
	11,491	Ordinary Shares	Acquisition	NZ$1.764	19/03/2015
	11,374	Ordinary Shares	Acquisition	NZ$1.349	13/04/2015 to 19/04/2015
	24,274	Ordinary Shares	Disposal	NZ$1.343	20/04/2015 to 26/04/2015
	46,922	Ordinary Shares	Disposal	NZ$1.491	15/05/2015
	3,943	Ordinary Shares	Disposal	NZ$1.481	18/05/2015
	2,642,150	Ordinary Shares	Acquisition	NZ$1.475	19/05/2015
Briscoe Group Limited	6,000,000	Ordinary Shares	Acquisition	NZ$1.476	15/06/2015 to 21/06/2015
	4,053,487	Ordinary Shares	Acquisition	NZ$1.419	22/06/2015 to 28/06/2015
	30,041,945	Ordinary Share	Acquisition	NZ$1.800	30/06/2015

[63] The above information has been prepared based on substantial security holder notices filed with NZSX and ASX and responses to a questionnaire circulated by Kathmandu after receipt of Briscoe's Takeover Notice.
[64] Where one date is referred to, the transaction occurred on that date.
[65] This includes The Goldman Sachs Group Inc's associated companies listed in Schedule 4.

Name	Number of equity securities	Designation of equity security	Acquisition or disposal	Consideration per equity security (weighted average in $)	Date1 (Week Commencing)
Accident Compensation Corporation (ACC)[66]	400,000	Ordinary Shares	Acquisition	NZ$1.450	29/01/15-04/02/15
	50,000	Ordinary Shares	Disposal	NZ$1.500	29/01/15-04/02/15
	100,000	Ordinary Shares	Acquisition	AU$1.360	29/01/15-04/02/15
	325,000	Ordinary Shares	Disposal	AU$1.390	29/01/15-04/02/15
	25,000	Ordinary Shares	Disposal	AU$1.510	05/02/15-11/02/15
	70,000	Ordinary Shares	Disposal	AU$1.680	12/02/15-18/02/15
	224,697	Ordinary Shares	Disposal	AU$1.710	19/02/15-25/02/15
	250,000	Ordinary Shares	Disposal	NZ$1.550	05/03/15-11/03/15
	331,000	Ordinary Shares	Disposal	NZ$1.590	12/03/15-18/03/15
	9,165	Ordinary Shares	Disposal	NZ$1.750	19/03/15-25/03/15
	40,835	Ordinary Shares	Disposal	NZ$1.440	07/05/15-13/05/15
	65,000	Ordinary Shares	Disposal	NZ$1.490	14/05/15-20/05/15
	439,305	Ordinary Shares	Acquisition	NZ$1.340	04/06/15-10/06/15
	106,726	Ordinary Shares	Acquisition	NZ$1.740	25/06/15-01/07/15
	1,225,000	Ordinary Shares	Disposal	NZ$1.750	25/06/15-01/07/15
	4,150,000	Ordinary Shares	Disposal	AU$1.600	25/06/15-01/07/15
	868,274	Ordinary Shares	Acquisition	NZ$1.650	02/07/15-08/07/15
	65,000	Ordinary Shares	Acquisition	NZ$1.710	16/07/15-22/07/15
	69,975	Ordinary Shares	Acquisition	AU$1.510	16/07/15-22/07/15
National Nominees Limited as Custodian for UniSuper Limited[67]	586,306	Ordinary Shares	Acquisition	AU$1.394	02/02/2015-08/02/2015
	25,851	Ordinary Shares	Acquisition	AU$1.387	11/02/2015
	5,669,716	Ordinary Shares	Acquisition	AU$1.384	16/02/2015-22/02/2015
	2,642,150	Ordinary Shares	Acquisition	AU$1.372	19/02/2015
	15,622	Ordinary Shares	Disposal	AU$1.351	27/05/2015
	554,979	Ordinary Shares	Acquisition	AU$1.539	29/06/2015-05/07/2015
	760,092	Ordinary Shares	Disposal	AU$1.584	29/06/2015-05/07/2015

[66] Includes Nicholas Bagnall, Guy Elliffe, Paul Robertshawe, Blair Tallott, Blair Cooper, Jason Familton and Bevan Flack (employees and portfolio managers of Accident Compensation Corporation) who have the right to control the voting rights of Shares.

[67] National Nominees Limited holds the ordinary shares as custodian for UniSuper Limited. Ex Blackrock Aust Equities, Challenger Small Companies, Goldman Sachs AM Industrial Aust, Kinetic Australian Equities and QIQ Small Caps Industrial act as investment managers for UniSuper Ltd and have disclosed a relevant interest in such Shares.

Schedule 4 – The Goldman Sachs Group Inc. Associated Companies (Schedule 3)

The Goldman Sachs Group, Inc.
Goldman, Sachs & Co
Goldman Sachs Paris Inc. Et Cie
Goldman Sachs (UK) L.L.C.
Goldman Sachs Group UK Limited
Goldman Sachs International Bank
Goldman Sachs International
Goldman Sachs Asset Management International
Goldman Sachs Group Holdings (U.K.) Limited
KPL Finance Limited
GS Funding Investments Limited
Rothesay Life (Cayman) Limited
GS Liquid Trading Platform II Limited
Forres LLC
Forres Investments Limited
Goldman Sachs Global Holdings L.L.C.
GS Asian Venture (Delaware) L.L.C.
GS Hony Holdings I Ltd
GS (Asia) LP
Goldman Sachs(Japan) Ltd
Goldman Sachs Japan Co. Ltd
J. Aron Holdings, L.P.
J. Aron & Company
Goldman Sachs Asset Management, L.P.
Goldman Sachs Hedge Fund Strategies LLC
Goldman Sachs (Cayman) Holding Company
Goldman Sachs (Asia) Corporate Holdings L.P.
Goldman Sachs Holdings (Hong Kong) Limited
Goldman Sachs (Asia) Finance
Goldman Sachs (Asia) L.L.C.
GS EMEA Funding Limited Partnership
Goldman Sachs Holdings (Singapore) PTE. Ltd
J. Aron & Company (Singapore) PTE
Goldman Sachs (Singapore) PTE
Goldman Sachs Holdings ANZ Pty Limited
Goldman Sachs Financial Markets Pty Ltd
GS HLDGS ANZ II Pty Ltd
Goldman Sachs Australia Group Holdings Pty Ltd
Goldman Sachs Australia Capital Markets Limited
Goldman Sachs Australia Pty Ltd
GS Holdings (Delaware) L.L.C. II
GS Lending Partners Holdings LLC
Goldman Sachs Lending Partners LLC
Goldman Sachs Bank USA
Goldman Sachs Mortgage Company
Goldman Sachs Execution & Clearing L.P.
GS Financial Services II, LLC
GS Funding Europe
GS Funding Europe I Ltd
GS Funding Europe II Ltd
GS Investment Strategies, LLC
MLQ Investors, L.P.
Goldman Sachs Realty Japan Ltd
Blue Daisy Co., Ltd
GS PIA Holdings GK
Crane Holdings Ltd
ELQ Holdings (Del) LLC
ELQ Holdings (UK) Ltd
ELQ Investors VII Limited
ELQ Investors II Ltd
Goldman Sachs Specialty Lending Holdings, Inc.
GS Fund Holdings, L.L.C.
Shoelane, L.P.
GS Financial Services L.P. (Del)
JLQ LLC
Jupiter Investment Co. Ltd
AR Holdings GK
SH White Flower
GK Frangipani
Goldman Sachs Global Commodities (Canada) Holdings, LP
Goldman Sachs Global Commodities (Canada) Corporation
GS Direct, L.L.C.
GSIP Holdco A LLC
Special Situations Investing Group II, LLC
MTGRP, L.L.C.
Archon International, Inc.
Archon Group Europe GMBH
Archon Group Deutschland GMBH
Broad Street Principal Investments L.L.C.
Broad Street Credit Holdings LLC
GSFS Investments I Corp
GS India Holdings L.P.
Goldman Sachs Investments (Mauritius) I Limited
GS Diversified Funding LLC
Hull Trading Asia Limited
Goldman Sachs LLC
Goldman Sachs Venture LLC

SECTION 6
Glossary

Glossary

In this Statement:

1H means the six month period ended 31 January in respect of Kathmandu's financial reporting.

1YF means one year forward.

90% Minimum Acceptance Condition means the condition in the Offer which requires Briscoe to have received sufficient acceptances of the Offer that would result in Briscoe holding or controlling 90% or more of the Kathmandu Shares.

ABS means Australian Bureau of Statistics.

AEDT means Australian Eastern Daylight Time.

ASX means ASX Limited, or, as the context requires, the financial market operated by it known as the Australian Stock Exchange.

ATO means the Australian Taxation Office.

A$***, ***AU$ or **AUD** mean Australian dollars.

Briscoe means Briscoe Group Limited.

BPS means Basis Points.

Briscoe Share means an ordinary Share in Briscoe.

CAGR means compound annual growth rate.

CEO means Chief Executive Officer.

CFO means Chief Financial Officer.

CGT means a capital gains tax.

CIO means Chief Information Officer.

Committee means the committee of independent Directors of Kathmandu comprising David Kirk, John Harvey and John Holland, formed to consider, and oversee the response to, the Offer.

CRM means Kathmandu's customer relationship management.

Directors means the Board of Directors of Kathmandu.

EBIT means earnings before interest and tax.

EBIT margin means earnings before interest and tax divided by total sales.

EBITDA means earnings before interest, tax, depreciation and amortisation.

EPS means earnings per share.

EPS accretion means that the EPS after an acquisition is expected to be higher than it would have been if the acquisition did not take place. The EPS accretion percentage measures the percentage growth in EPS as a result of the transaction.

EPS dilution means that the EPS after an acquisition is expected to be lower than it would have been if the acquisition did not take place. The EPS dilution percentage measures the percentage decline in EPS as a result of the transaction.

EUR means Euro.

EV means enterprise value, calculated as the market capitalisation plus net debt.

EV / EBIT means EV divided by EBIT.

Foreign Exempt Shareholder means Kathmandu Shareholders whose address in Kathmandu's Share register is not within New Zealand or Australia and to whom it would not be lawful for Briscoe to offer ordinary shares in Briscoe under the Offer and in the simplified disclosure prospectus accompanying the Offer.

FY means a financial year ended 31 July for Kathmandu and approximately 25 January for Briscoe as the context requires. If this is followed by an 'F', this indicates unaudited financial results or forecasts.

GBP means British Pound.

Grant Samuel or ***Independent Adviser*** means Grant Samuel & Associates Limited, the Independent Adviser to Kathmandu.

GST means goods and services tax.

Independent Adviser's Report means the report on the merits of the Offer prepared by Grant Samuel pursuant to Rule 21 of the Takeovers Code.

IPO means initial public offering.

Kathmandu means Kathmandu Holdings Limited.

Kathmandu Information Line means 1800 190 082 (toll free for callers within Australia), 0800 777 256 (toll free for callers within New Zealand, +64 9 375 5998 (for callers outside Australia and New Zealand) Monday to Friday between 9.00am and 5.30pm (AEDT).

Kathmandu Share or Share means a fully paid ordinary share in Kathmandu.

m means millions.

NPAT means net profit after tax.

NZ$ or ***NZD*** means New Zealand dollars.

NZSX means the main board equity securities market operated by NZSX Limited.

Offer means Briscoe's offer dated 22 July 2015 to acquire all the ordinary shares in Kathmandu that it does not already hold.

P/E multiple means either the market capitalisation divided by net profit after tax or Share price divided by earnings per Share.

Q1, Q2, Q3, Q4, means the period ended 02 November, 31 January, 03 May, 31 July, respectively in respect of Kathmandu's financial reporting.

RBA means Reserve Bank of Australia.

Reference Date means 31 July 2015.

ROI means return on investment.

Same Store Sales means sales attributable to stores that have been open more than one year. Measurement includes online and all stores from their 53rd week of trading.

SEK means Swedish Krona.

Shareholder means a holder of Kathmandu Shares.

Small Shareholder means a Shareholder who holds less than the number of Kathmandu Shares that would result in that Shareholder holding an unmarketable parcel of Briscoe Shares.

S&P/NZX 50 index means the market-capitalisation weighted and float-adjusted stock market index of the 50 largest, eligible stocks listed on the NZSX from Standard & Poor's.

S&P/ASX 200 index means the market-capitalisation weighted and float-adjusted stock market index of the 200 largest, eligible stocks listed on the ASX from Standard & Poor's.

Statement means this target company statement.

Summit Club means Kathmandu's customer loyalty program known as "Summit Club".

Takeovers Code means the Takeovers Code approved by the Takeovers Code Approval Order 2000 (as subsequently amended).

TOFA means the taxation of financial arrangement rules in Australia.

VWAP means volume weighted average share price.

YoY means year on year.

SECTION 7

Independent Adviser's Report

GRANT SAMUEL

Kathmandu Holdings Limited

Independent Adviser's Report

On the full takeover offer by Briscoe Group Limited

July 2015

Grant Samuel confirms that it:
- has no conflict of interest that could affect its ability to provide an unbiased report; and
- has no direct or indirect pecuniary or other interest in the Briscoe Group Offer considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Grant Samuel has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

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Glossary

Term	Definition
ASX	Australian Stock Exchange
Briscoe	Briscoe Group Limited
CRM	Customer Relationship Management
CGT	Capital Gains Tax
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings Per Share
Grant Samuel	Grant Samuel & Associates Limited, the Independent Adviser to Kathmandu Holdings Limited
IPO	Initial Public Offering
Kathmandu	Kathmandu Holdings Limited
NPAT	Net profit after tax
NZX	New Zealand Stock Exchange
Briscoe Offer or Offer	Briscoe offer for all the shares in Kathmandu
VWAP	Volume weighted average share price

1. Terms of the Full Takeover Offer from Briscoe

1.1 Background

Kathmandu Holdings Limited (**Kathmandu**) is a New Zealand company listed on both the New Zealand Stock Exchange (**NZX**) and the Australian Stock Exchange (**ASX**). Kathmandu was established in 1987 and has grown to become a leading specialist retailer in clothing and equipment for travel and adventure in New Zealand and Australia, with a small presence in the United Kingdom. Kathmandu operates 110 stores in Australia, 46 stores in New Zealand and 4 stores in the UK.

On 30 June 2015 Briscoe Group Limited (**Briscoe**) announced that it had acquired a 19.9% shareholding in Kathmandu and that it intended to lodge a takeover notice imminently in respect of the remaining shares in Kathmandu that it did not already own. On 1 July 2015 Kathmandu announced that it had received a notice of intention to make a full takeover offer from Briscoe for consideration of five (5) Briscoe shares for every nine (9) Kathmandu shares plus a cash amount of NZ$0.20 per Kathmandu share (the **Briscoe Offer** or the **Offer**). The Briscoe Offer is dated 22 July 2015 and remains open for acceptance until 17 September 2015 unless extended.

1.2 Details of the Briscoe Offer

The Briscoe Offer is for all of the ordinary shares in Kathmandu. The material conditions of the Briscoe Offer are:

- acceptances are received from Kathmandu shareholders which will result in Briscoe becoming the holder or controller of 90% or more of the voting rights in Kathmandu. The minimum acceptance condition can be waived by Briscoe provided it has received acceptances which, together with the shares already held by Briscoe, confer more than 50% of the voting rights in Kathmandu;
- no dividends, bonus issues or other payments or distributions are declared or paid by Kathmandu, including by way of share buy back, redemption or cancellation or any other form of capital reduction until the takeover offer becomes unconditional;
- the Kathmandu business is carried on in a normal and ordinary course consistent with past practices while the Briscoe Offer is open;
- there has been no material adverse effect on the financial position, trading operations or assets or liabilities or prospects of Kathmandu taken as a whole while the Briscoe Offer is open;
- the NZX 50 Index (Gross) or the ASX 200 Index has not decreased by more than 10% (for a period of 3 consecutive business days) from the closing level of those respective Indices at market close on 30 June 2015;
- Kathmandu has not made any announcement or profit warning to the effect that its net profit after tax for the 12 month period ending 31 July 2015 will or may be less than NZ$20m (excluding any unusual or non-recurring items);
- nothing occurring or failing to occur that would entitle Briscoe's bankers to make any or all of the funding available for the purposes of funding the Briscoe Offer;
- Kathmandu not undertaking any acquisition or disposal of businesses or assets in excess of NZ$1m; and
- the offer is subject to a condition that the acquisition of shares under the Offer be approved as a major transaction by a special resolution of Briscoe shareholders. As Rod Duke controls greater than 75% of the shares in Briscoe, this provides the ability to pass a special resolution.

The full list of conditions are set out in the Briscoe Offer document sent to Kathmandu shareholders. Any conditions of the Briscoe Offer may be waived by Briscoe at its discretion. As would be expected, most of the conditions are included to protect Briscoe against any substantial change in the form and operations of Kathmandu or the markets it operates in while the Briscoe Offer is open for acceptance.

1.3 Requirements of the Takeovers Code

The Takeovers Code came into effect on 1 July 2001, replacing the New Zealand Stock Exchange Listing Rules and the Companies Amendment Act 1963 requirements governing the conduct of company takeover activity in New Zealand. The Takeovers Code seeks to ensure that all shareholders are treated equally and on the basis of proper disclosure are able to make informed decisions on shareholding transactions that may impact on their own holdings.

Kathmandu is a Code Company for the purposes of the Takeovers Code. Rule 6 of the Takeovers Code, the fundamental rule, states that a person (along with its associates) who holds or controls:

(a) no voting rights, or less than 20% of the voting rights, in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company unless, after that event, that person and that person's associates hold or control in total not more than 20% of the voting rights in the code company;

(b) 20% or more of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company.

Rule 7 of the Takeovers Code sets out the exceptions to the fundamental rule. Rule 7 states that a person may become the holder or controller of an increased percentage of the voting rights in a code company under the following circumstances:

(a) ***by an acquisition under a full offer;***

(b) by an acquisition under a partial offer;

(c) by an acquisition by the person of voting securities in the code company or in any other body corporate from one or more other persons if the acquisition has been approved by an ordinary resolution of the code company in accordance with the code;

(d) by an allotment to the person of voting securities in the code company or in any other body corporate if the allotment has been approved by an ordinary resolution of the code company in accordance with the code;

(e) if: (i) the person holds or controls more than 50%, but less than 90%, of the voting rights in the code company; and

(ii) the resulting percentage held by the person does not exceed by more than 5 the lowest percentage of the total voting rights in the code company held or controlled by the person in the 12-month period ending on, and inclusive of, the date of the increase; and

(f) if the person already holds or controls 90% or more of the voting rights in the code company.

The Takeovers Code specifies the responsibilities and obligations for both Briscoe and Kathmandu as bidder and target respectively. Kathmandu's response to the Briscoe Offer, known as a Target Company Statement, must contain the information prescribed in the Second Schedule of the Takeovers Code, and is to include or be accompanied by an Independent Adviser's Report (or summary thereof).

2. Scope of the Report

2.1 Purpose of the Report

The Independent Directors of Kathmandu have engaged Grant Samuel & Associates Limited (**Grant Samuel**) to prepare an Independent Adviser's Report to comply with the Takeovers Code in respect of the Briscoe Offer. Grant Samuel is independent of Kathmandu and Briscoe and has no involvement with, or interest in, the outcome of the Briscoe Offer.

Rule 21 of the Takeovers Code requires the Independent Adviser to report on the merits of an offer. The term "merits" has no definition either in the Takeovers Code itself or in any statute dealing with securities or commercial law in New Zealand. While the Takeovers Code does not prescribe a meaning of the term "merit", it suggests that "merits" include both positives and negatives in respect of a transaction.

A copy of this report will accompany the Target Company Statement to be sent to all Kathmandu shareholders. This report is for the benefit of the shareholders of Kathmandu other than Briscoe. The report should not be used for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Briscoe Offer. This report should be read in conjunction with the Qualifications, Declarations and Consents outlined at Appendix F.

2.2 Basis of Evaluation

Grant Samuel has evaluated the Briscoe Offer by reviewing the following factors:

- the estimated value range of Kathmandu and the assessed price of the Briscoe Offer when compared to that estimated value range;
- the likelihood of an alternative offer and alternative transactions that could realise fair value;
- the likely market price and liquidity of Kathmandu shares in the absence of the Briscoe Offer;
- any advantages or disadvantages for Kathmandu shareholders of accepting or rejecting the Briscoe Offer;
- the current trading conditions for Kathmandu;
- the timing and circumstances surrounding the Briscoe Offer; and
- the attractions and risks of Kathmandu's business.

2.3 Approach to Valuation

Grant Samuel has estimated the value range of Kathmandu with reference to its full underlying value. In Grant Samuel's opinion the price to be paid under a full takeover should reflect the full underlying value of the company. The support for this opinion is two fold:

- the Takeovers Code's compulsory acquisition provisions apply when the threshold of 90% of voting rights has been reached. In this instance, the Takeovers Code seeks to avoid issues of premiums or discounts for minority holdings by providing that a class of shares is to be valued as a whole with each share then being valued on a pro rata basis. In other words, a minority shareholder is to receive its share of the full underlying value. Grant Samuel believes that the appropriate test for fairness under a full or partial takeover offer where the offeror will gain control is the full underlying value, prorated across all shares. The rationale for this opinion is that it would be inconsistent for one group of minority shareholders, those selling under compulsory acquisition, to receive a different price under the same offer from those who accepted the offer earlier; and
- under the Takeovers Code the acquisition of more than 20% of voting rights in a "code" company can only be made under an offer to all shareholders unless the shareholders otherwise give approval. As a result, a controlling shareholding (generally accepted to be no less than 40% of the voting rights) cannot be transferred without the acquirer making an offer on the same terms and conditions to all shareholders (unless shareholders consent). Prior to the introduction of the Takeovers Code some market commentators held the view that where a major shareholder had a controlling shareholding, any control premium attached only to that shareholding. One of the core foundations of the Takeovers Code is that all shareholders be treated equally. In this context, any control premium is now available to all shareholders under a takeover offer (in a scenario where an offeror will

gain control), regardless of the size of their shareholding or the size of the offeror's shareholding at the time the offer is made.

Accordingly, Grant Samuel is of the opinion that not only because shares acquired under a compulsory acquisition scenario will receive a price equivalent to full underlying value, but because the control premium is now available to all shareholders, the share price under either a full or partial takeover offer where the offeror will gain control should be within or exceed the prorated full underlying valuation range of the company.

Kathmandu has been valued at fair market value, which is defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

Grant Samuel's opinion is to be considered as a whole. Selecting portions of the analyses or factors considered by it, without considering all the factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary. For the avoidance of doubt, appendices A to F form part of this report.

3. Profile of Kathmandu

3.1 History and Background

Kathmandu was established in 1987 by Jan Cameron, John Pawson and Bernard Wicht. The first store opened in Melbourne with product largely supplied from New Zealand. After enjoying some success in Australia, Kathmandu entered the New Zealand market in 1992. Kathmandu then steadily grew, developing its brand and in time becoming recognised as a provider of quality clothing and equipment for travel and adventure.

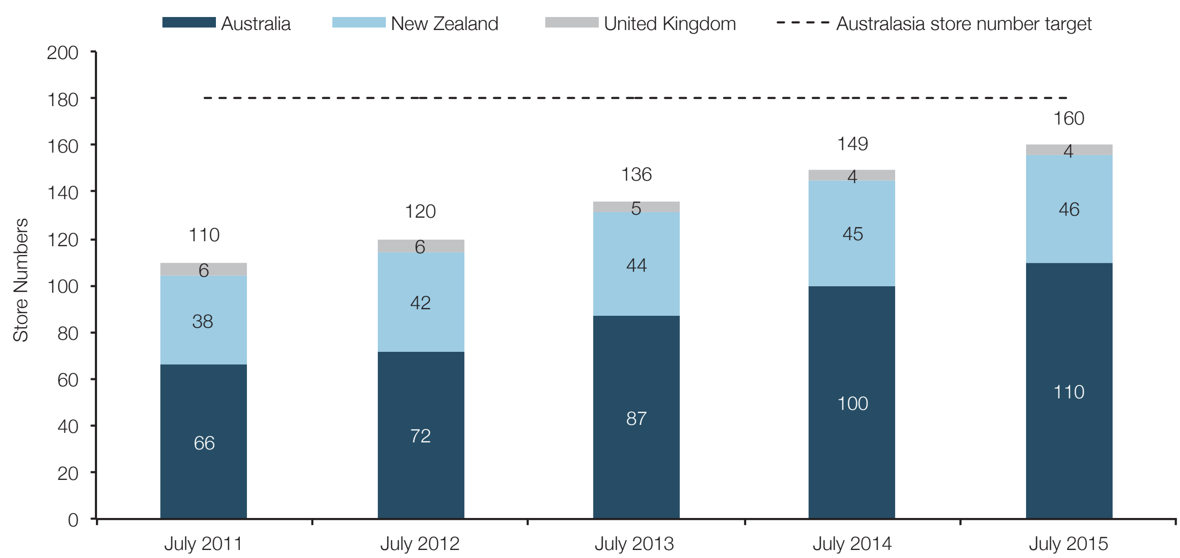
In 2006 a consortium of Australasian private equity funds acquired Kathmandu for approximately NZ$275 million and embarked on a programme of investing in new stores, IT systems, distribution centres and expanding the product range. When the private equity consortium exited the business by way of an Initial Public Offering (**IPO**) in November 2009, Kathmandu had 82 stores across Australia and New Zealand, and a small presence in the UK. The shares in Kathmandu were listed on the NZX and ASX at a price of NZ$2.13 and A$1.70 per share respectively, implying an enterprise value at the time of approximately NZ$496 million.[2]

Kathmandu has continued to expand and today has 160 stores comprising:

- 110 stores in Australia;
- 46 stores in New Zealand; and
- 4 stores in the UK.

Over the last four years Kathmandu has added 50 stores with most of the growth occurring in Australia where store numbers have grown from 66 to 110. Kathmandu is targeting to grow the store network in Australasia to 180 stores. Further expansion is also targeted for international and online markets. Growth in Kathmandu's store numbers from July 2011 to July 2015 is outlined below:

Kathmandu Store Numbers – July 2011 to July 2015



[2] Implied market capitalisation of NZ$426 million plus pro-forma net debt of NZ$70 million.

3.2 Operations

Kathmandu operates a fully integrated retail model - approximately 95% of sales are *'Kathmandu'* branded products, made to Kathmandu design specifications, and distributed to the store network from dedicated Kathmandu distribution centres in Christchurch and Melbourne. This product and brand control allows Kathmandu to protect its margins through owning key parts of the supply chain while retaining the flexibility to change and adapt the business model quickly (as compared to a franchisee that must operate to certain parameters). Kathmandu product is only sold in Kathmandu stores, on its website and on selected other international websites such as Trade Me, eBay AU, Amazon UK, eBay UK and Next UK. Additional online distribution channels are scheduled to come on-stream during the 2016 financial year in selected countries.

Vertically integrated retailers have the financial benefit of not needing to pay wholesale margins to the owners of the brands they sell. Accordingly, vertically integrated retailers can achieve significantly higher gross margins than non-vertically integrated retailers. In order to maintain and develop their own brand, vertically integrated retailers must invest in brand marketing, shop fit-out and staff costs to a greater degree than non-vertically integrated retailers.

Kathmandu runs its store network from support offices and distribution centres in Australia and New Zealand. The Australian support office is based in Melbourne and incorporates the CEO, marketing, online and international, retail and human resource functions for Australia. The New Zealand support office is based in Christchurch and incorporates the finance, product design, supply chain, IT and human resource functions for New Zealand. The small UK business is serviced directly by a third party distributor.

Products

Kathmandu's sales split is approximately 65% clothing and 35% equipment. This ratio has remained relatively consistent over time, reflecting the strong brand recognition that Kathmandu enjoys in apparel. Demand for travel and adventure clothing and equipment is a function of general economic conditions, as well as levels of disposable income and consumer sentiment to outdoor activity and adventure. Kathmandu's key product lines are shown below:

Kathmandu – Key Product Lines

Product Range	Key Products	
Apparel	▪ Waterproof Jackets	▪ Shirts and Pants
	▪ Down Jackets	▪ Merino Apparel and Thermals
	▪ Thermals	▪ Socks
	▪ Fleece Jackets	
Equipment	▪ Packs	▪ Tents
	▪ Bags	▪ Travel Accessories
	▪ Sleeping Bags	▪ Camping Accessories
	▪ Footwear	

Kathmandu invests significant resources in product design innovation and quality. A key strategy for the product design team has been to ensure it develops products at multiple price points. This *'good, better, best'* product strategy allows Kathmandu to create quality products with features and price points to meet the needs of different customer segments. Kathmandu has three broad target customer segments - '*Adventurous Families*', '*Young Go Getters*' and '*Older Outdoor Enthusiasts*' - and tailors its product offering and price points accordingly:

Kathmandu's Target Customer Segments

Young Go Getters	Adventurous Families	Older Outdoor Enthusiasts
▪ Emerging professionals (become Adventurous Families) ▪ Explorers who make time to travel and enjoy the outdoors ▪ They also fit walks, gym, jogging, swimming and cycling into their busy lives	▪ Typically professionals who enjoy the outdoors and travel ▪ Higher than average incomes ▪ Have children	▪ Enjoying their freedom as their children are partly or fully grown ▪ Seeking new challenges and interests through outdoor experiences ▪ Many are empty nesters

Product development initiatives seek to capture and build on the *Kathmandu* brand and imaging, which for many products include technological fabrics or components that seek to give Kathmandu a competitive advantage at each price point.

Most Kathmandu product is designed in New Zealand and then contract manufactured from a range of manufacturers. Approximately 85% of Kathmandu's product is manufactured in China, with the remainder from the rest of Asia, Europe and North America. Kathmandu typically contracts with suppliers using materials and components sourced or specified by Kathmandu with pricing and volume fixed for each order.

Store Footprint and Geographical Presence

Kathmandu's New Zealand and Australian stores operate under a variety of store formats and sizes currently ranging from approximately 150m^2 to 1,100m^2. Store formats vary with reference to the range and type of product offered. Kathmandu store locations in New Zealand and Australia are categorised under the following four groupings:

- ***High footfall*** - in malls or immediately adjacent to malls, or in CBD's of major cities (the state capitals of Australia and the four largest cities in New Zealand);
- ***Destination*** - located outside the CBD's of the major cities, generally in suburban high streets or retail locations that have adjacent off street parking;
- ***Regional/Provincial*** - in cities other than the major cities above, where there is typically only one Kathmandu store; and
- ***Outlet*** - specifically selling clearance lines and advertised as outlet stores.

New Zealand stores are generally destination or regional/provincial locations and are larger. Australian stores are generally high footfall locations and are smaller. The variation between the two countries reflects:

- the spread of New Zealand stores into smaller popular centres; and
- the growth in Australia since 2006 of stores opened in or adjacent to malls in the major cities.

Almost all stores are profitable in their own right, although it typically takes some months for newly opened stores to reach breakeven sales levels. Store refurbishment is an ongoing process and there is no standardised formula.

3.3 Markets and Competitors

Sector and Competitors

Merchandise within the travel and adventure sector can be divided into three categories: specialist products, mainstream/lifestyle products and general merchandise. There are a number of retailers and brands/wholesalers within Australasia that service all three categories and therefore a significant amount of overlap occurs within this specialist sector:

- ***Specialty outdoor:*** Equipment and clothing intended for mountaineers and other adventure market participants who require highly technical products for their activities. Competitors include *Mountain Design* and *Macpac*, *Bivouac*, *Torpedo7*, *Anaconda*, *Aussie Disposal*, *Paddy Pallin*, *BCF*, *Ray's Outdoors* and *The North Face*;
- ***Lifestyle:*** Products that incorporate some of the technical characteristics of specialist products which are attractive to consumers seeking authenticity and function but not necessarily top of the line specifications. Competitors include *Rebel Sport*, *Athletes Foot*, *Footlocker*, *Northbeach* and *Surf Dive 'N' Ski*; and
- ***General merchandise:*** Simple clothing and equipment such as fleece, thermals, certain backpacks and sleeping bags for use by the price sensitive consumer. Competitors include *Kmart*, *The Warehouse*, *Farmers*, *Target*, *Big W*, *David Jones* and *Myer*.

Kathmandu attracts the majority of its customer base from within the specialty and lifestyle categories. Kathmandu's store numbers relative to its key competitors in the speciality outdoor segment is depicted below:

Kathmandu Store Numbers versus Key Competitors (July 2015)

The Australian travel and adventure sector has undergone significant change since Kathmandu was floated on the NZX and ASX in 2009. Several significant Australian companies have exited the New Zealand market while other brands have grown their presence. Australia on the other hand, with the exception of one large retailer has grown the travel and adventure market significantly since 2009. The table below outlines the change in Kathmandu's store numbers relative to its speciality retail competitors from July 2009 to July 2015:

Change in Store Numbers of Kathmandu and Speciality Retail Competitors (July 2009 to July 2015)

	July 2009[3]			July 2015[4]			
Retailer/Brand	**NZ**	**Australia**	**Total**	**NZ**	**Australia**	**Total**	**% Change**
Kathmandu	**31**	**45**	**76**	**46**	**110**	**156**	**105%**
Specialty outdoor competitors							
BCF	-	60	60	-	116	116	93%
Ray's Outdoors	-	39	39	-	53	53	36%
Macpac	11	7	18	26	16	42	133%
Mountain Designs	5	36	41	-	42	42	2%
Anaconda	-	18	18	-	39	39	116%
Aussie Disposals	-	39	39	-	37	37	(5%)
Paddy Pallin	-	13	13	-	13	13	-
Bivouac	10	-	10	11	-	11	10%
R&R Sport/Torpedo7	9	-	9	10	-	10	11%
The North Face	-	2	2	2	5	7	250%
Snowgum	6	30	36	-	1	1	(97%)
Columbia	-	7	7	-	-	-	(100%)
Competitor subtotal	**41**	**251**	**292**	**49**	**322**	**371**	**27%**
Total	**72**	**296**	**368**	**95**	**432**	**527**	**43%**

The following points are relevant when reviewing the table above:

- total store numbers for the retailers named in the table above have increased by 43% (a compound annual growth rate (**CAGR**) of 6.2% p.a.);
- listed Australian retailer Super Retail Group has the largest footprint for travel and adventure clothing/merchandise in Australasia with 169 stores across the two brands (116 *BCF* stores and 53 *Ray's Outdoors* stores). BCF has grown its Australian footprint considerably, opening a further 56 stores since 2009. BCF entered the New Zealand market in 2011 opening 13 stores under the *Fishing Camping and Outdoor* brand, but subsequently closed its New Zealand network at the end of 2014;
- Kathmandu has the largest store footprint for a single brand in the travel and adventure clothing/merchandise market within Australasia (with 156 stores), more than doubling the number of stores since 2009 and with particular growth in Australia;
- Snowgum went into voluntary administration in October 2013. The company now operates almost exclusively online, operating only one outlet store in Australia;
- Macpac has significantly increased its store network in both New Zealand and Australia opening a total of 24 new stores since 2009; and
- The Warehouse Group purchased R&R Sport in November 2013. The sports and adventure business was subsequently rebranded as Torpedo7.

[3] As outlined in Kathmandu's IPO prospectus dated 23 October 2009.

[4] Grant Samuel analysis of store numbers. Source: company websites.

Markets and Marketing

The two primary markets for Kathmandu are Australia and New Zealand, supplemented by a small presence in the UK. The key features of each geographical market are summarised below:

Key Segmental Markets

Market	FY15F Market Update
New Zealand	▪ Approaching saturation - maybe 2 - 3 more stores to build ▪ Poor Christmas 2014 sales as a result (in part) to weather and heavier discounting before Christmas ▪ Economy and sentiment encouraging disposable income expenditure
Australia	▪ Network near complete - potentially 20 more stores possible ▪ Poor Christmas sales in 2014 ▪ Economy sluggish discouraging retail spending

A key asset of Kathmandu is the "Summit Club" where customers become members for a nominal fee, and enjoy discounts and promotions only available to members. The Summit Club initiative has continued to be highly successful and today Kathmandu generates approximately two thirds of group sales from Summit Club members. The Summit Club database is a key source of information supporting Kathmandu's customer research. The database allows Kathmandu to better understand its customers and their interests, purchasing habits and communication preferences.

A cornerstone of the Kathmandu marketing model has been to have major sales initiatives in 3 distinct periods; Christmas/New Year, Easter and Winter. Approximately 60% of group revenue is generated during these sale periods. The Kathmandu model of high-low pricing is pronounced with earnings skewed to these sale periods. This model has its risks as has been demonstrated in the current financial year. The weather, product acceptance by the customer, pricing and promotional effectiveness can have a significant impact on the success (or not) of each sales initiative. Kathmandu communicates regularly with the market and has historically spent between 5.0% and 6.5% of annual sales on marketing initiatives. Upon completion of a sale, the majority of remaining products are classified as clearance items and discontinued with some products being moved to Kathmandu clearance stores.

3.4 Growth Strategies

Kathmandu's growth strategies include:

- completion of the store network in Australia;
- improving brand positioning;
- more effectively marketing to Summit Club members;
- enhancing the product offering and range; and
- continuing to develop its online and international capabilities.

A summary of Kathmandu's current growth strategies is set out below:

Growth Strategy		Growth Strategy Update (FY15 H1 Results Presentation)
Complete Store Network	▪ Targeting 180 store network in Australasia.	▪ Will open 11 new stores in FY15F. Originally targeted 15 ▪ Anticipate slow start to new stores in FY16F ▪ Store network now all categorised for priority and scope of capital investment to support. Optimising inventory levels per store through implementation of assortment range planning tools across redefined store grades
Summit Club	▪ Focus on building an enhanced loyalty and individual engagement programme ▪ Foundation for global sales growth	▪ Enhanced value proposition for Summit Club members during major promotions - best pricing, differentiated from non-members ▪ Customer relationship management (**CRM**) platform will drive effective Summit Club member segmentation and personalised communication, rewards and recognition plan ▪ UK new member acquisition will continue to drive online and in-store sales growth
Enhance product offering	▪ Optimise category investment and range breadth within categories ▪ Expand innovation and technical product focus	▪ Range optimisation to maximise gross profit contribution facilitated by improved forecasting, planning and real time performance analysis capability ▪ Product lifecycle management system implementation underway to improve product flow from source to market
Online and International	▪ Grow online sales in Australia, New Zealand and international markets	▪ Growth momentum continues. YOY sales growth 33%
Brand Positioning	▪ Optimise Kathmandu brand and distinctiveness	• Communicate more clearly with customers • Focus on brand positioning • Have well defined entry points in each market segment

In addition to these strategies Kathmandu has opportunities to enhance profitability through controlling costs as the business grows, through further investing in systems and technology to deliver efficiencies and savings. The cost efficiencies may come through a reduction in supply chain costs and lead times and improved inventory management and optimising its store formats and locations.

3.5 Financial Performance

The financial performance of Kathmandu for the financial years ended 31 July 2012, 2013 and 2014 (**FY12**, **FY13** and **FY14**), together with the forecast for the financial year ending 31 July 2015 (**FY15F**) and the budget for the year ending 31 July 2016 (**FY16F**) are shown in the table below:

Kathmandu Financial Performance (NZ$ millions)

Year end 31 July	2012A	2013A	2014A	2015F	2016B
Store Numbers					
Opening	110	120	136	149	160
Net stores opened	10	16	13	11	4
Closing	**120**	**136**	**149**	**160**	**164**
Sales	347.1	384.0	392.9	409.4	454.6
Cost of sales	(127.6)	(142.0)	(144.8)	(157.3)	(172.2)
Gross profit	**219.5**	**242.0**	**248.1**	**252.1**	**282.4**
Gross margin %	*63.2%*	*63.0%*	*63.1%*	*61.6%*	*62.1%*
Rent	(39.6)	(43.8)	(44.5)	(52.8)	(60.6)
Other operating expenses	(113.4)	(124.2)	(129.1)	(152.0)	(158.6)
Total operating expenses	**(153.0)**	**(168.0)**	**(173.6)**	**(204.8)**	**(219.2)**
Total operating expenses as % of sales	*44.1%*	*43.8%*	*44.2%*	*50.0%*	*48.2%*
EBITDA	**66.5**	**74.0**	**74.5**	**47.3**	**63.2**
EBITDA margin	*19.2%*	*19.3%*	*19.0%*	*11.6%*	*13.9%*
Depreciation and amortisation	(9.5)	(10.6)	(10.2)	(13.6)	(15.0)
EBIT	**57.0**	**63.4**	**64.3**	**33.7**	**48.2**
Net interest	(5.8)	(4.4)	(4.6)		
Tax expense	(16.3)	(14.8)	(17.5)		
Profit after tax	**34.9**	**44.2**	**42.2**		

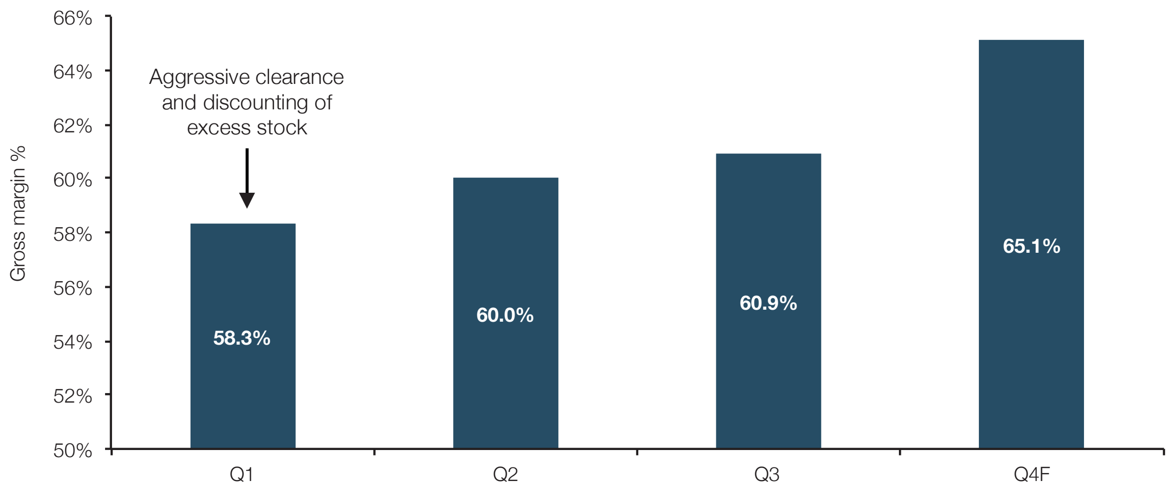
The following points should be taken into consideration when reviewing the table above:

Forecast Financial Results for the year to 31 July 2015

- in March 2015 Kathmandu released its financial results for the first half year to 31 January 2015. The results were disappointing and included group sales of NZ$179m (up 7% on the equivalent prior year period), EBIT of NZ$0.6m (down from NZ$17.6m in the equivalent prior year period) and a net loss of NZ$1.8m (compared to a profit of NZ$11.4m in the equivalent prior year period). The result was a marked reversal of the previous year's financial performance and was attributed to:
  - aggressive clearance and discounting of excess stock in August and September 2014 (i.e. during Q1); and
  - poor Christmas and New Year sales (i.e. during Q2) caused by a sharp decline in the general apparel and sporting/camping equipment market and exacerbated by the aggressive clearance activities during Q1.
- the sharp reversal in previous steady performance was also a function of a higher cost base for the business as a consequence of the rapid store rollout, coupled with costs associated with major IT and distribution projects. Kathmandu's cost of doing business has been outpacing sales growth over the past year (as opposed to experiencing retail leveraging) with operating expenses forecast to increase from NZ$173.6m in FY14 to NZ$204.8m in FY15F (representing an increase from 44.2% to 50.0% of revenue). Not unexpectedly controlling costs is one the priorities of the new CEO;
- Kathmandu's financial performance for FY15F is based on actual results for the 11-month period to 30 June 2015 and a forecast for July 2015;
- Kathmandu's gross margin is forecast to reduce in FY15F as a consequence of the heavy discounting that occurred during Q1 to clear excess stock. With the benefit of hindsight the clearance campaign could have been managed more effectively with less aggressive discounting and shorter clearance periods. The impact of

the aggressive clearance activity during Q1 and the subsequent flow-on impact to the Christmas/New Year sales during Q2 on Kathmandu's gross margin is illustrated below. Gross margin has progressively improved throughout the remaining part of the financial year, reflecting the reduced levels of discounting and clearance activities.

Trend in FY15F Gross Margin % by Quarter



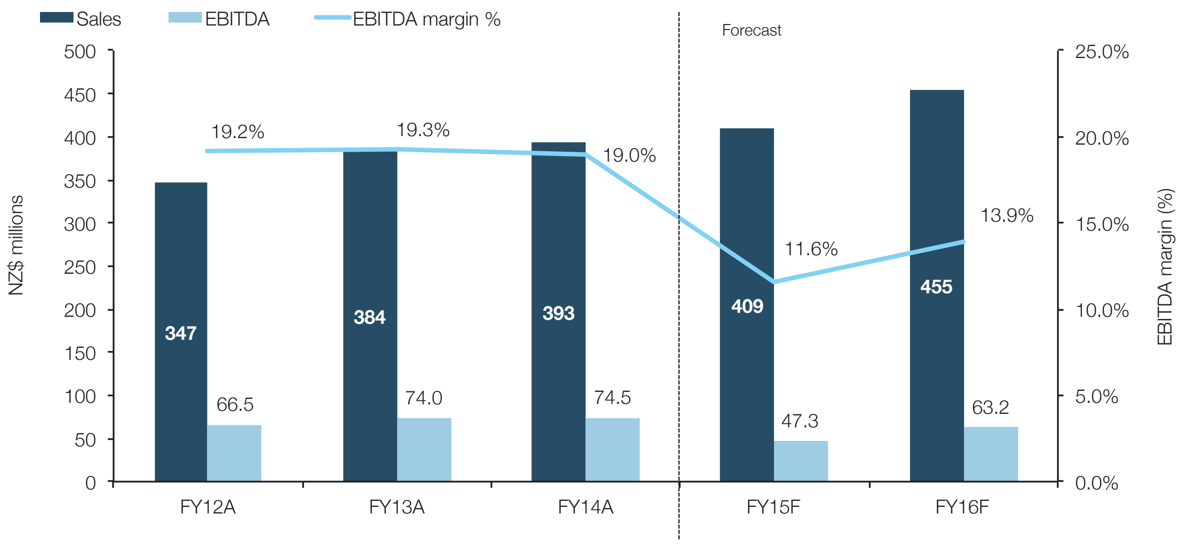
- the second half of the year ending 31 July 2015 is forecast to produce an EBITDA of NZ$40.5m compared with the first half EBITDA of only NZ$6.8m. The winter trading in June and July are typically the best performing months of the year;
- full year sales and gross profit are forecast to be ahead of the same period last year in part due to the relatively high number of new stores coming on-stream for the full financial period. The commensurate increase in the cost base of the business sees forecast operating expenses rising by 18%;
- the cost of doing business in Australia is significantly higher than in New Zealand. Wages are approximately 9% of sales in New Zealand compared to approximately 14% in Australia. Rents are also higher in Australia and most leases provide for automatic increases; and
- Kathmandu has advised the following in respect of the FY15F financial year:
  - The commencement of the Winter sale to one week later, resulting in an adverse impact on EBITDA by approximately NZ$2.7m;
  - Non-recurring expenses of NZ$1.4m are included in the FY15F result, which are transitional expenses arising from the Australian distribution centre and Christchurch office relocations. These expenses comprise provisions for onerous leases, accelerated depreciation and de-fit out costs; and
  - The FY15F result includes a NZ$2.8m brand investment in the UK over and above historical levels.

Forecast Financial Results for the year to 31 July 2016

- the FY16 Budget has been constructed by Kathmandu management and incorporates overarching assumptions including:
  - same store sales recovering to historic levels;
  - gross margin improvement due to less clearance discounting;
  - capped labour store spend and no headcount increase at head office; and
  - stock turn improvements.
- sales are forecast to increase by approximately 11%, driven from the full year benefit of stores opened during FY15F and more targeted marketing to Summit Club members. Same store sales growth is forecast at approximately 5.0% (at constant exchange rates);
- gross margin is forecast to partially recover from FY15F levels that were impacted by high levels of discounting but are lower than historical margins due to the decline in the value of NZ and Australian currencies. The FY16F gross margin projection is a full percentage point below that achieved during the FY12 – FY14 period;
- the budget assumes an average AUD:NZD exchange rate of A$0.90 per NZD; and
- full year EBITDA is forecast at NZ$63.2m, up from NZ$47.3m in FY15F.

The trend in Kathmandu's sales, EBITDA and EBITDA margin from FY12 to FY16F is outlined below:

Kathmandu Sales, EBITDA (NZ$ millions) and EBITDA margin (%) – FY12A to FY16F



3.6 Country Results

Kathmandu's country results and key financial metrics are outlined below:

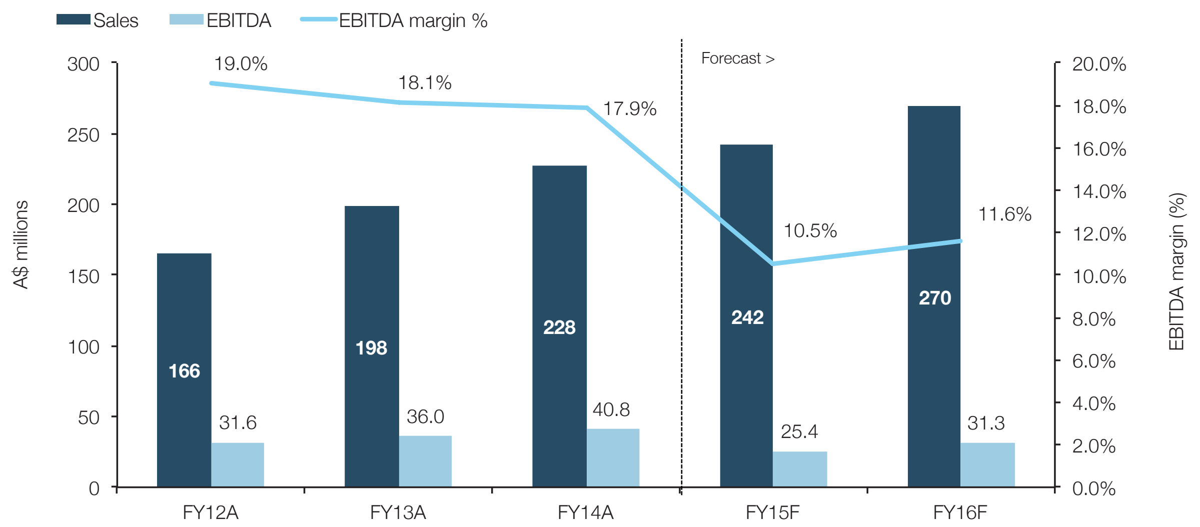
Australia

Kathmandu – Australia Results (AU$ millions)

Year end 31 July	2012A	2013A	2014A	2015F	2016B
Store Numbers					
Opening	66	72	87	100	110
Net stores open	6	15	13	10	5
Closing	**72**	**87**	**100**	**110**	**115**
Sales	166.0	198.4	227.8	241.9	269.6
EBITDA	**31.6**	**36.0**	**40.8**	**25.4**	**31.3**
EBITDA margin %	*19.0%*	*18.1%*	*17.9%*	*10.5%*	*11.6%*
Same store sales growth (including online)	6.5%	6.7%	6.9%	(3.5%)	5.1%
Contribution from new stores	9.3%	12.8%	7.9%	9.7%	6.4%
Total sales growth	**15.8%**	**19.5%**	**14.8%**	**6.2%**	**11.5%**

In Australia Kathmandu has historically achieved strong same store sales growth ranging between 6.5% and 7.0% per annum. The pace of new store growth has started to reduce with forecast store openings of 5 in FY16F, versus 10 in FY15F, and 15 stores opened during FY13A. The reduction in the rate of new store openings in FY16F reflects that the business is moving closer to network maturity in Australia. Same store sales growth in FY16F is underpinned by assumptions associated with improving brand awareness and increased Summit Club membership. The trend in Kathmandu's Australian sales, EBITDA and EBITDA margin from FY12A to FY16F is outlined below:

Kathmandu Australian Sales, EBITDA (A$ millions) and EBITDA margin (%) – FY12A to FY16F



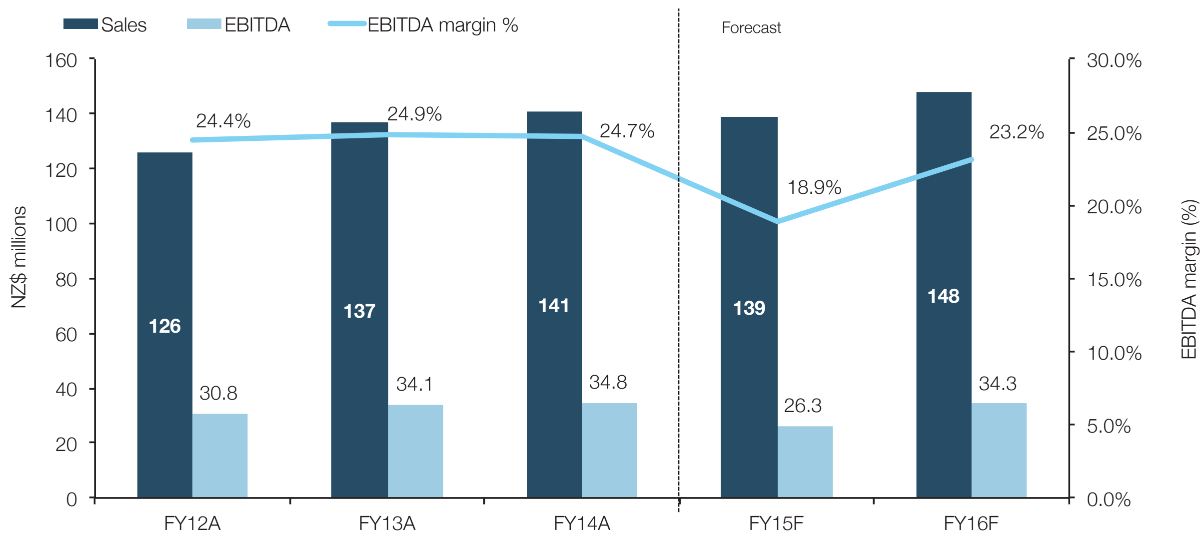
New Zealand

Kathmandu – New Zealand Results (NZ$ millions)

Year end 31 July	2012A	2013A	2014A	2015F	2016B
Store Numbers					
Opening store numbers	38	42	44	45	46
Net stores open	4	2	1	1	1
Closing Store Numbers	**42**	**44**	**45**	**46**	**47**
Sales	126.1	137.0	141.0	139.0	148.0
EBITDA	**30.8**	**34.1**	**34.8**	**26.3**	**34.3**
EBITDA margin %	*24.4%*	*24.9%*	*24.7%*	*18.9%*	*23.2%*
Same store sales growth (including online)	9.2%	4.4%	(0.1%)	(2.0%)	5.0%
Contribution from new stores	5.1%	4.2%	3.0%	0.6%	1.5%
Total sales growth	**14.3%**	**8.6%**	**2.9%**	**(1.4%)**	**6.5%**

During the last four financial years Kathmandu has increased its store network in New Zealand from 38 to 46 and the company is forecast to open one further store in FY16F. The trend in Kathmandu's New Zealand sales, EBITDA and EBITDA margin from FY12A to FY16F is outlined below:

Kathmandu New Zealand Sales, EBITDA (NZ$ millions) and EBITDA margin (%) – FY12A to FY16F



United Kingdom

Kathmandu Financial Performance – United Kingdom (GBP millions)

Year end 31 July	2012A	2013A	2014A	2015F	2016B
Store Numbers					
Opening stores	6	6	5	4	4
Net stores opened	-	(1)	(1)	-	(2)
Closing store numbers	**6**	**5**	**4**	**4**	**2**
Sales	3.6	3.1	2.4	2.8	3.1
EBITDA	**(1.6)**	**(1.1)**	**(1.5)**	**(2.4)**	**(1.7)**
EBITDA margin %	*(44.4%)*	*(35.5%)*	*(62.5%)*	*(85.7%)*	*(54.8%)*
Same store sales growth (including online)	*(7.7%)*	*(6.5%)*	*12.7%*	*15.8%*	*21.8%*

The UK experience for Kathmandu has to date been problematic and uneconomic. The brand has not yet developed the penetration that to date warrants further expansion of the store network. Nevertheless, markets such as the UK represent significant growth opportunities for Kathmandu and are a key part of the future growth story.

3.7 Financial Position

The financial position of Kathmandu as at 31 July 2014 and the forecast financial position as at 31 July 2015 are outlined in the table below:

Kathmandu – Financial Position (NZ$ millions)

As at 31 July	2014A	2015F
Inventories	103.8	107.6
Cash and cash equivalents	7.2	1.2
Trade and other receivables	3.8	3.3
Current assets	**114.7**	**112.1**
Intangible assets	238.7	238.3
Property, plant and equipment	48.4	53.8
Deferred tax	6.3	1.0
Derivate financial instruments	0.1	9.5
Non-current assets	**293.5**	**302.6**
Total assets	**408.3**	**414.7**
Trade payables	(37.7)	(37.6)
Derivate financial instruments	(3.0)	-
Current tax liabilities	(2.7)	(3.0)
Current liabilities	**(43.4)**	**(40.6)**
Borrowings	(62.7)	(70.9)
Total liabilities	**(106.2)**	**(111.5)**
Net assets	**302.1**	**303.2**

The following points are relevant when considering the above table:

- the intangible asset balance of NZ$238.7m as at 31 July 2014 comprises the brand, which is valued at NZ$152.1m, goodwill of NZ$75.4m and NZ$11.2 m of software assets. The brand and goodwill balances are a legacy of the private equity acquisition in 2006 and the IPO in 2009;
- property, plant and equipment largely comprises store fit outs comprising leasehold improvements and furniture and fittings; and
- derivative financial instruments are currency hedge contracts and interest rate hedging. The company has a practice of hedging foreign exchange on a rolling 12 month basis and interest rate hedging on a case by case basis. Derivative financial instruments are marked to market.

3.8 Cash Flows

The cash flows for Kathmandu for FY13 and FY14, together with the forecast for FY15 are shown in the table below:

Kathmandu – Cash Flows (NZ$ millions)

Year end 31 July	2013A	2014A	2015F
EBITDA	**74.0**	**74.5**	**47.3**
Change in working capital	(5.4)	(19.3)	(7.6)
Income tax paid	(18.4)	(19.6)	(5.7)
Net interest paid	(4.5)	(4.4)	(4.2)
Net cash flow from operations	**45.7**	**31.2**	**29.8**
Net purchase of property, plant & equipment	(14.8)	(15.2)	(16.9)
Purchase of intangible assets	(2.6)	(9.0)	(3.7)
Net cash flow from investing	**(17.4)**	**(24.2)**	**(20.6)**
Net drawdown/(repayment) of borrowings	(7.5)	20.8	8.2
Proceeds from share issue	-	0.6	2.0
Dividends paid	(20.0)	(24.0)	(24.1)
Net cash flow from financing	**(27.6)**	**(2.7)**	**(13.9)**
Net cash flow	**0.7**	**4.3**	**(4.7)**
Foreign exchange impact	(0.2)	0.6	(1.3)
Opening cash	1.8	2.3	7.2
Closing cash	**2.3**	**7.2**	**1.2**

3.9 Capital Structure and Ownership

As at 29 July 2015 Kathmandu had 201,484,583 shares on issue held by approximately 5,200 shareholders. The top 20 shareholders are shown below:

Kathmandu – Top 20 Shareholders as at 29 July 2015

Shareholder	Shares (millions)	%
New Zealand Central Securities Depository Limited	43.3	21.5%
Briscoe Group Limited	40.1	19.9%
JP Morgan Nominees Australia Limited	33.8	16.8%
National Nominees Limited	20.4	10.1%
HSBC Custody Nominees (Australia) Limited	6.2	3.1%
Citicorp Nominees Pty Limited	5.9	2.9%
BNP Paribas Noms Pty Limited	3.0	1.5%
Forsyth Barr Custodians Limited	1.4	0.7%
New Zealand Depository Nominee Limited	1.2	0.6%
RBC Investor Services Australia Nominees Pty Limited	1.1	0.5%
Citicorp Nominees Pty Limited	1.0	0.5%
FNZ Custodians Limited	0.8	0.4%
UBS Nominees Pty Limited	0.7	0.3%
ABN Amro Clearing Sydney Nominees Pty Limited	0.6	0.3%
Leveraged Equities Finance Limited	0.6	0.3%
Forsyth Barr Custodians Limited	0.5	0.2%
Public Trust	0.4	0.2%
UBS New Zealand Limited	0.4	0.2%
UBS Wealth Management Australia Nominees Pty Limited	0.3	0.2%
Investment Custodial Services Limited	0.3	0.2%
Top 20 shareholders	**161.8**	**80.3%**
Other shareholders	39.6	19.7%
Total	**201.5**	**100.0%**

Source: Miraqle

3.10 Share Price Performance

The share price and trading volume history of Kathmandu shares during the last two years is depicted below.

Kathmandu Share Price Performance and Trading Volume over the last two years

The following comments are relevant when considering the graph above:

- on 22 December 2014 Kathmandu provided a trading update regarding the Christmas sales promotion advising that sales and gross margins for the first weeks of the promotion in Australia were below the levels achieved during the previous year. Kathmandu attributed the subdued performance to negative consumer confidence and a difficult discretionary retail environment. The company also announced that it anticipated the challenging conditions in the Australian market to continue for some time. Kathmandu's share price declined from NZ$2.78 to NZ$2.20 per share following the announcement;
- on 2 February 2015 Kathmandu provided a trading update and earnings guidance for the first half of the 2015 financial year. The company announced that the sales result and gross margin were below expectations and resulted in half year EBIT guidance being updated to a range of NZ$(0.2)m to NZ$0.8m, down from NZ$17.6m during the same period in FY14. Kathmandu's share price reduced to NZ$1.47 per share (from NZ$2.01 per share) following the announcement; and
- on 30 June 2015 Briscoe announced that it had acquired a 19.9% shareholding in Kathmandu at an estimated total cost of approximately NZ$70m[5] and that it intended to lodge a takeover notice imminently in respect of the remaining shares in Kathmandu that it did not already own. Kathmandu's share price increased from NZ$1.39 per share to close at NZ$1.75 per share following the announcement. Recent trading since the announcement of the Briscoe offer has been in the range of NZ$1.55 to 1.80 per share.

[5] Grant Samuel estimate.

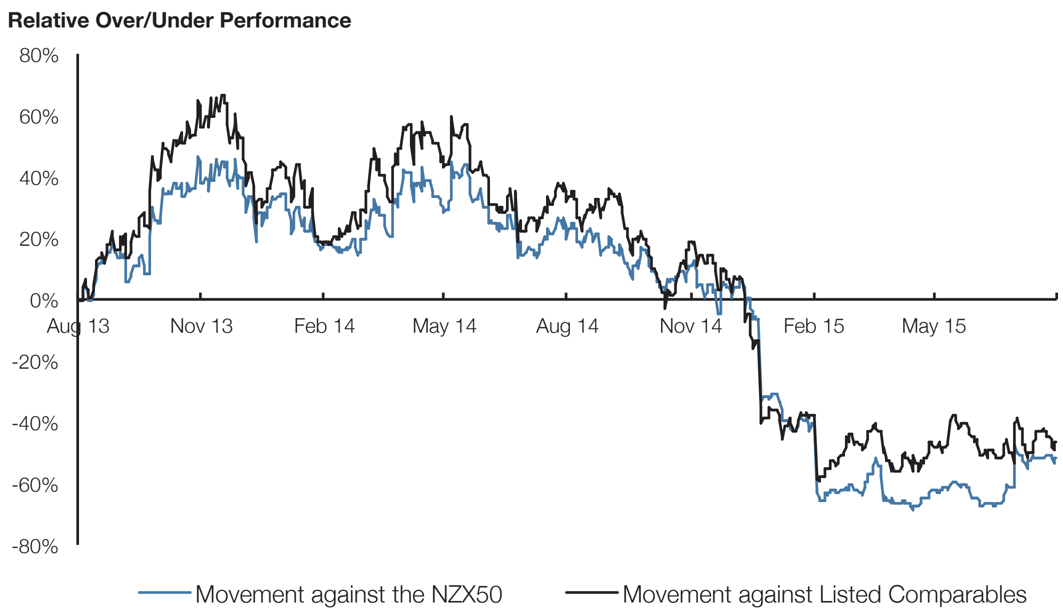
The following table shows the volume of Kathmandu shares traded over the past 12 months.

Kathmandu – Share Trading Summary (NZ$)

Time period	Low	High	VWAP	Volume (millions)
Post takeover announcement	$1.55	$1.80	$1.77	50.5
Pre takeover announcement				
1 months prior	$1.25	$1.44	$1.39	27.7
3 months prior	$1.25	$1.51	$1.40	73.0
6 months prior	$1.25	$2.19	$1.50	198.0
12 months prior	$1.25	$3.60	$2.15	485.0

Kathmandu's share price against the NZX50 index and an index of specialty Australasian retailers is shown in the graph below:

Kathmandu Share Price Performance relative to NZX50 Capital Index and Retail Index



4. Valuation of Kathmandu

4.1 Summary

Kathmandu has been valued by Grant Samuel in the range NZ$423.5 million to NZ$486.5 million, which corresponds to a value of NZ$2.10 to NZ$2.41 per share. The valuation is summarised below:

Kathmandu – Valuation Summary (NZ$ millions)

NZ$ millions except where otherwise stated	Low	High
Enterprise value	504.0	567.0
Net debt for valuation purposes	(80.5)	(80.5)
Equity value	**423.5**	**486.5**
Fully diluted shares on issue (million)	201.5	201.5
Value per share	**$2.10**	**$2.41**

The valuation represents the estimated full underlying value of Kathmandu assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Kathmandu shares to trade on the NZX in the absence of a takeover offer or proposal similar in nature to the Briscoe Offer.

Assessments of the value of Kathmandu are subject to uncertainty given Kathmandu's current circumstances (specifically a sharp reduction in earnings reported in the six months to 31 January 2015 coupled with a number of senior management changes). Valuation is fundamentally concerned with judgements regarding the future earnings and cash flow generation of an enterprise. In this regard:

- Kathmandu's EBIT fell to NZ$0.6m in the six months to 31 January 2015 compared to an EBIT of NZ$17.6m in the same period in 2014. The full year results for the year to 31 July 2015 would not normally be released until September 2015. For the purposes of the valuation Grant Samuel has primarily focused on forecast earnings for the year ending 31 July 2016 which reflects a full year of projected normal trading in the business. Kathmandu's EBITDA and EBIT for FY11 - FY14 and the forecast for FY15 and FY16 is outlined below:

  Kathmandu Earnings (NZ$ millions)

	2011A	2012A	2013A	2014A	2015F	2016F
EBITDA	71.4	66.4	74.0	74.5	47.3	63.2
EBIT	64.0	57.0	63.4	64.3	33.7	48.2

- Kathmandu has historically relied on achieving top line growth through store openings. Over the last four financial years 50 new stores have been opened. The primary focus has been on network growth, a factor which likely contributed to diverting management resource and ultimately resulted in a situation at the end of the 2014 financial year where there was significant excess stock in the business. Kathmandu's response was to undertake a clearance programme which achieved significant sales but came at the expense of the sale of new full priced seasonal merchandise and likely reinforced in the minds of many customers that Kathmandu operated a regular discount model and there was no need to pay full price. The clearance programme in August and September 2014 is believed to have cannibalised sales in subsequent months. The poor performance in the first half was mirrored by a number of other retailers in Australia, which may have exacerbated Kathmandu's over stocked situation.

- The poor financial performance in the financial year ending 31 July 2015 is a reflection of a business that had grown very quickly and its systems had arguably not kept up. Kathmandu's most recent marketing campaigns became indistinguishable from previous years and tended to focus on price rather than the brand attributes.

- The new CEO acknowledges the shortcomings (a number of which have been corrected already) and will focus management in FY16 on:

  - cost and efficiencies. Operating expenses have accelerated too fast, particularly at head office and at smaller format stores. Smaller stores often absorb a disproportionate amount of working capital and management time;

- growing like for like sales and densities in existing stores in Australasia with a strong focus on productivity and optimisation of the existing store network;
- brand development and distinctiveness;
- developing the online offering in both domestic markets and internationally;
- expanding the Summit Club. The Summit Club is underrepresented in Australia, and is one of the strongest features of Kathmandu. Currently the offering to Summit Club members is not sufficiently differentiated from other customers and not well targeted to individual members;
- utilising the new IT tools; and
- developing the international strategy.

- A focus on retail excellence and a sustained customer-centric focus by all parts of the business is expected to improve earnings from both increased sales and margins and if implemented should result in a more robust business able to cope with an increasingly challenging retail environment and the increasing weakness of both the New Zealand and Australian currencies. Kathmandu management believe that FY16 will be a year of transition with the benefits of the decisions being made now showing up in the results for the year ending 31 July 2017. Kathmandu's management forecasts for FY16 incorporate approximately NZ$7.0m of cost reductions over FY15F.
- There is no certainty that the improved performance will be achieved as expected. Kathmandu will continue to be exposed to both internal risks such as product design and cost controls, and external risks relating to consumer sentiment in the travel and adventure markets in which it operates and competitive activity.

The valuation reflects the strengths and weaknesses of Kathmandu and takes into account the following factors:

- Kathmandu has a strong apparel brand with 86% of interviewees in a customer survey[6] indicating awareness of the brand. This is the highest of any of 21 retail brands included in the survey of outdoor, sportswear and activewear retailers in Australia. Nevertheless Kathmandu operates in an increasingly competitive market. The market for outdoor style clothing has increased in both New Zealand and Australia. Kathmandu was rated[7] as best in class for quality and product range but only average on price;
- Kathmandu branded product comprises approximately 95% of sales. The ownership of the brand and internal design is a key feature of the Kathmandu model providing above average margins; and
- The cost of doing business has grown much faster than sales revenue in the last three years and appears high when compared with similar retail businesses. In the period FY13A to FY15F compound annual growth for head office employee numbers was 19%, advertising costs (including the UK brand campaign) was 17% and distribution labour was 14%, compared to compound sales growth of only 4% over the same period. This trend is forecast to reverse in FY16, but it appears that the overheads need to be right sized with urgency. Kathmandu's model of designing and sourcing its own product in part accounts for the higher operating expense ratio.

Net debt for Valuation Purposes

Grant Samuel has adopted net debt for valuation purposes of $80.5m. Net debt has been estimated by averaging the forecast monthly net bank borrowings for the year 31 July 2016 to take account for the seasonal working capital requirements of the business.

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[6] Kathmandu Customer Survey, 2015.

[7] Kathmandu Customer Survey, 2015.

4.2 Preferred Methodology

Overview

Grant Samuel's valuation of Kathmandu has been estimated on the basis of fair market value as a going concern, defined as the estimated price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information. The valuation of Kathmandu is appropriate for the acquisition of the company as a whole and accordingly incorporates a premium for control. The value is in excess of the level at which, under current market conditions, shares in Kathmandu could be expected to trade on the share market. Shares in a listed company normally trade at a discount of 15% - 25% to the underlying value of the company as a whole, but the extent of the discount (if any) depends on the specific circumstances of each company.

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved. A detailed description of each of these methodologies is outlined at Appendix D.

Preferred Approach

Grant Samuel has placed primary reliance on a capitalisation of earnings methodology in determining a value range for Kathmandu. This is primarily due to the ready availability of quality information that can by analysed to determine an applicable multiple range. This information includes transactions, IPO's and the sharemarket ratings of listed Australasian retail companies.

4.3 Earnings Multiple Analysis

Implied Multiples

Grant Samuel estimates the value of Kathmandu on an un-geared basis to be in the range of NZ$504 million to NZ$567 million. This range implies the following multiples:

Kathmandu Group - Implied Multiples

		Valuation Range	
	Amount (NZ$ millions)	**Low**	**High**
Multiple of EBITDA – actual for year ended 31 July 2014	74.5	6.8	7.6
Multiple of EBITDA – forecast year ending 31 July 2015	47.3	10.7	12.0
Multiple of EBITDA – forecast year ending 31 July 2016	63.2	8.0	9.0
Multiple of EBIT – actual for year ended 31 July 2014	64.3	7.8	8.8
Multiple of EBIT – forecast for year ending 31 July 2015	33.7	15.0	16.8
Multiple of EBIT – forecast year ending 31 July 2016F	48.2	10.5	11.8

The implied multiples are consistent with multiples implied by the share prices of comparable IPO's and recent transaction evidence in the retail sector as set out below.

Transactions in the Australasian Retail Sector

The valuation of Kathmandu has been considered having regard to the earnings multiples implied by the price at which broadly comparable companies and businesses have changed hands. A selection of recent transactions in the retail sector in Australia and New Zealand is set out below:

Recent Transaction Evidence

Date	Target	Acquirer	Implied Enterprise Value (millions)	EBITDA Multiple[8] (times)		EBIT Multiple[9] (times)	
				Historical	Forecast	Historical	Forecast
Mar 2015	Accent Footwear	RCG Corporation	A$200	7.5	6.0	8.9	7.2[10]
Dec 2014	R.M. Williams	L Capital Asia	A$100	8.4	n.a.	10.7	n.a.
Jul 2014	Pacific Brands Workwear Group	Wesfarmers Industrial & Safety	A$180	n.a.	n.a.	8.1	n.a.
Jun 2014	City Farmers Retail	Greencross	A$205	n.a.	8.5[11]	n.a	n.a
May 2014	Retail Zoo	Bain Capital	A$264	15.0*	10.3	n.a.	n.a.
Apr 2013	R.M. Williams	L Capital Asia	A$100	12.4	n.a.	n.a.	n.a.
Mar 2013	Exego Group	Genuine Parts Company	US$1,019	n.a.	9.0	n.a.	n.a.
Jul 2013	DaKine	Altamont	A$70	7.0	n.a.	7.3	n.a.
Mar 2013	Torpedo7	The Warehouse Group	NZ$65	n.a.	n.a.	n.a.	12.9-16.2[12]
Dec 2012	Noel Leeming	The Warehouse Group	NZ$65	n.a.	n.a.	6.1	n.a.
Jul 2012	Witchery	Country Road	A$172	5.0	5.0	6.3[13]	6.3
Oct 2011	Rebel Sport	Super Retail Group	A$620	8.1	n.a.	9.4	n.a.
Mar 2011	Retail Apparel Group	Navis Capital Partners	A$200	n.a.	n.a.	8.0	n.a.
Apr 2010	Ray's Outdoors	Super Retail Group	A$54	n.a.	n.a.	n.a.	7.2
Mar 2010	Lorna Jane	Champ Ventures	A$70	7.0	n.a.	n.a.	n.a.
Mar 2008	Just Group	Premier Investments	A$843	6.8	6.9	8.2	8.7
May 2007	Colorado Group	Affinity Equity Partners	A$619	14.8*	9.7	19.7*	12.0
Dec 2006	Repco Corporation	CCMP Capital	A$548	8.2	8.9	10.5	11.8
Nov 2006	Rebel Sport	Archer Capital	A$327	8.3	7.3	10.9	9.7
Jul 2006	Colorado Group	Affinity Equity Partners	A$450	8.2	7.2	10.0	9.2
Median (excluding outliers)				**8.1**	**7.9**	**8.6**	**9.2**
Average (excluding outliers)				**7.9**	**7.9**	**8.7**	**9.6**

Source: Media reports, company announcements, annual reports and presentations.
*n.a. means not available. Outliers are denoted **

Brief descriptions of the transactions included above are provided in Appendix B. Each transaction has its own unique set of circumstances. As such it is often very difficult to identify trends or draw any meaningful conclusions.

[8] Represents implied enterprise value divided by EBITDA.

[9] Represents implied enterprise value divided by EBIT.

[10] Forecast EBIT has been estimated based on the proportion of depreciation to EBITDA for the historical period to 31 December 2014.

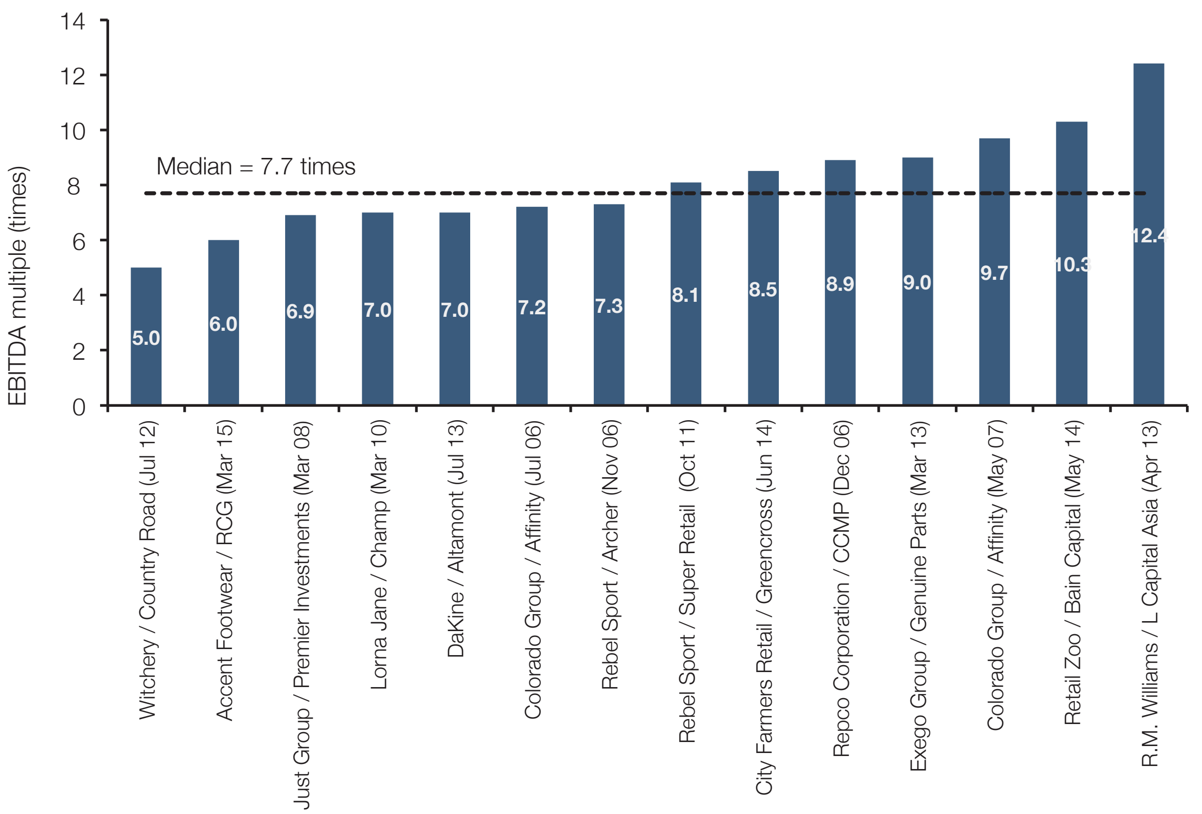
[11] Includes expected synergies.

[12] Includes earnout component. The EBIT multiple excluding the earnout component is be 8.0 to 10.0 times EBIT.

[13] Grant Samuel estimate.

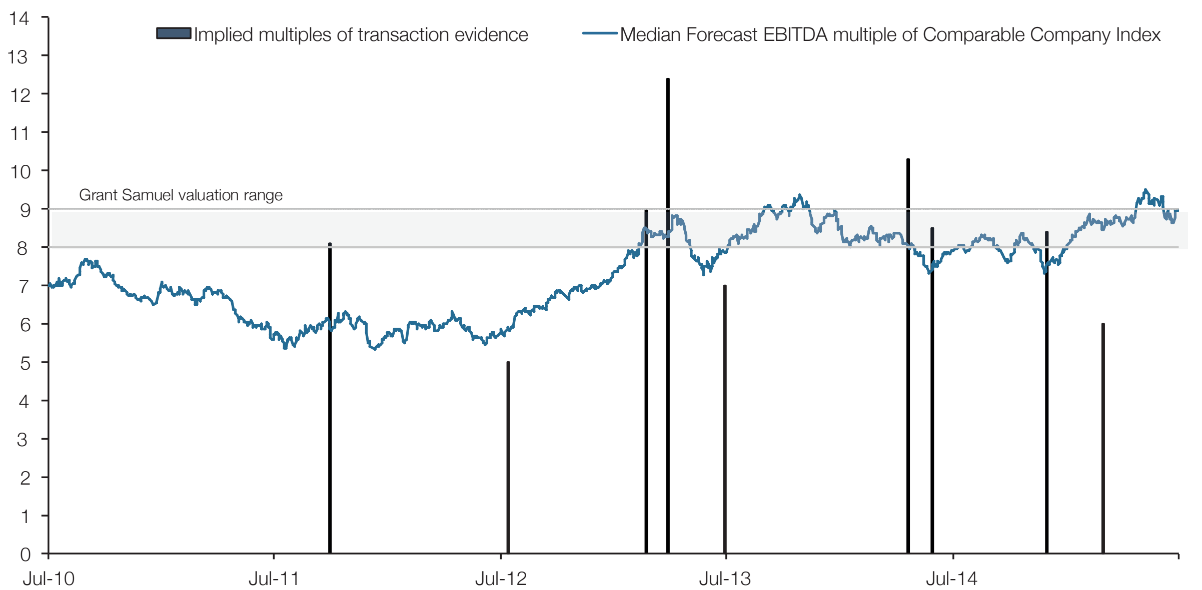
The implied EBITDA multiples of the transactions involving specialty retail businesses is depicted below. Where available, forecast multiples have been presented. Most of transactions fall within a band of 7.0 to 9.0 times EBITDA. The median EBITDA multiple for the transactions set out below was 7.7 times EBITDA.

Implied EBITDA multiples of Specialty Retail Transactions



The below diagram illustrates the trend in the median implied forecast EBITDA multiple of the index of comparable companies from July 2010 to 2015 and transaction evidence over the same period and the multiple range of FY16F EBITDA based on Grant Samuel's valuation range. The upward trend in the median implied EBITDA multiples of the comparable companies are consistent with the general increase in the broader equity markets.

Median Implied Forecast EBITDA multiple versus Transactions and Grant Samuel Implied Multiples for FY16F



Initial Public Offerings in the Retail Sector

The valuation of Kathmandu has been considered having regard to the earnings multiples implied by the price at which broadly comparable companies have raised capital through an IPO. A selection of relevant IPO's is set out below. It should be noted that the implied multiples do not include a premium for control.

Recent Initial Public Offering Evidence

Date	Company	Implied Enterprise Value (millions)	EBITDA Multiple (times)		EBIT Multiple (times)	
			Historical	Forecast	Historical	Forecast
Apr 2014	Burson Group Limited	A$370.5	10.4	9.4	11.8	10.6
Dec 2013	Dick Smith Holdings Limited	A$533.8	n.m.	7.4	n.m.	9.1
Nov 2009	Myer Holdings Limited	A$2,443.3	8.1	7.4	10.4	9.4
Nov 2009	Kathmandu Holdings Limited	A$397.4	9.8	8.5	11.1	9.6
Median			**9.8**	**8.0**	**11.1**	**9.5**
Average			**9.4**	**8.2**	**11.1**	**9.7**

Source:IPO Prospectus Documents, n.m. means not meaningful

Share Market Evidence

The valuation of Kathmandu has also been considered in the context of the share market ratings of listed Australasian and international companies with operations in the retail industry. While none of these companies is precisely comparable to Kathmandu, the share market data provides some framework within which to assess the valuation of Kathmandu.

Share Market Ratings of Selected Listed Companies[14]

Company	Market Capitalisation (NZ$ millions)	EBITDA Multiple[15] (times)		EBIT Multiple[16] (times)	
		FY15F	FY16F	FY15F	FY16F
Kathmandu (share price as at 30 July 2015)	**347**	**9.0**	**6.8**	**12.7**	**8.9**
New Zealand / Australia					
Briscoe Limited	619	8.5	8.1	9.5	9.0
Dick Smith Holdings Limited	520	5.6	5.1	6.8	6.3
Hallenstein Glasson Holdings Limited	197	5.7	5.7	7.5	7.5
Harvey Norman Holdings Ltd.	5,522	11.3	10.5	13.5	12.3
JB Hi-Fi Limited	2,129	8.0	7.5	9.5	9.0
Michael Hill International Ltd.	391	7.1	6.0	9.6	7.9
Myer Holdings Limited	802	4.5	4.7	8.0	8.5
Premier Investments Limited	2,293	13.9	12.4	16.9	14.8
RCG Corporation Limited	632	13.7	10.7	15.7	14.3
Super Retail Group Limited	2,044	9.3	8.1	12.8	10.9
The Warehouse Group Limited	882	7.5	7.3	12.2	11.7
Average		**8.6**	**7.8**	**11.1**	**10.2**
Median		**8.0**	**7.5**	**9.6**	**9.0**

Source: Grant Samuel analysis[17]

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[14] The companies selected have a variety of year ends. The financial information presented in the Historic column corresponds to the most recent actual annual result. The forecast column corresponds to the forecast for the subsequent year.

[15] Represents gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by EBITDA.

[16] Represents gross capitalisation divided by EBIT.

[17] Grant Samuel analysis based on company announcements and, in the absence of company published financial forecasts, brokers' reports. Where company financial forecasts are not available, the median of the financial forecasts prepared by a range of brokers has generally been used to derive relevant forecast value parameters. The source, date and number of broker reports utilised for each company depends on analyst coverage, availability and recent corporate activity.

A description of each of the companies above is set out in Appendix C. When observing the table above the following points should be noted:

- the multiples are based on closing share prices as at 30 July 2015. The share prices, and therefore the multiples, do not include a premium for control. Shares in a listed company normally trade at a discount to the underlying value of the company as a whole;
- the companies selected have varying financial year ends. The data presented above is based on the actual or forecast FY15 financial performance plus the subsequent forecast year;
- there are considerable differences between the operations and scale of the comparable companies when compared with Kathmandu. In addition, care needs to be exercised when comparing multiples of New Zealand companies with internationally listed companies. Differences in regulatory environments, share market and broader economic conditions, taxation systems and accounting standards hinder comparisons.

5. Profile of Briscoe

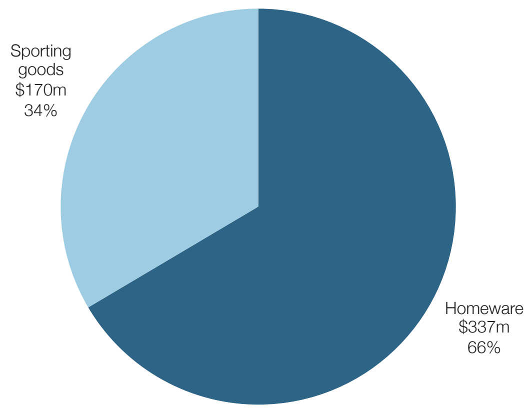
5.1 Background

Briscoe is a well established nationwide retailer in New Zealand comprising three separate businesses - *'Briscoe Homeware'*, *'Rebel Sports'* and *'Living & Giving'*. The Briscoe Homeware and Living & Giving businesses sell homewares, and Rebel Sports is New Zealand's largest sporting equipment and apparel retailer. Briscoe has exclusive rights to the Rebel Sport name in New Zealand.

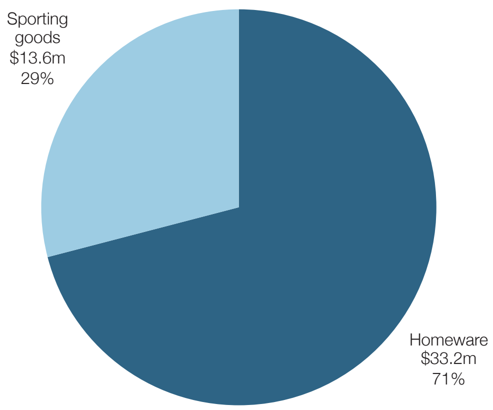
Briscoe trades from 42 Briscoe Homeware stores, 4 Living & Giving stores and 34 Rebel Sports stores. A breakdown of Briscoe's revenue and EBIT by segment for the year ended 25 January 2015 is outlined below:

Segment Contribution – FY15 (NZ$ millions and % of total)

Revenue



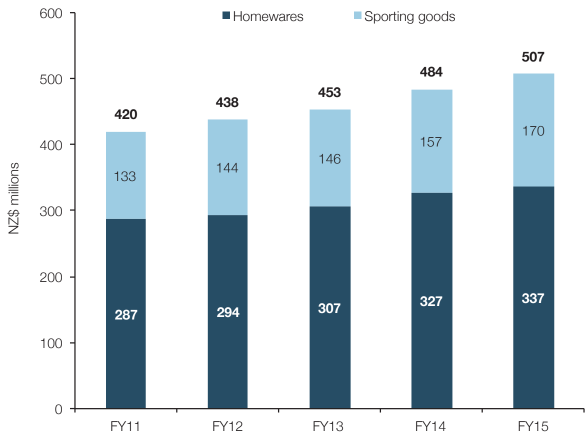
EBIT



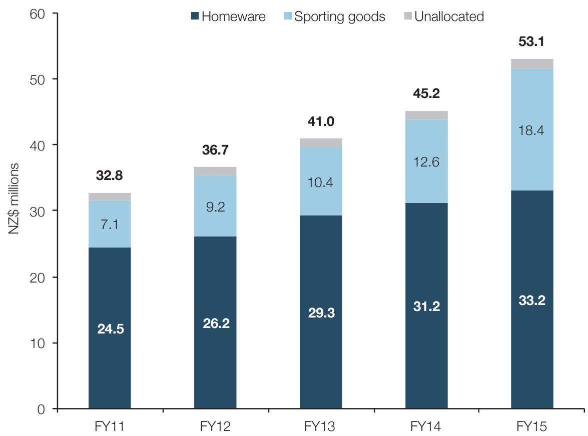
Briscoe Homeware and Living & Giving retail a wide variety of homewares with the majority of product being imported as is the case with Rebel Sport. The strength of the New Zealand dollar through much of the 2015 financial year allowed the business to drive aggressive promotions without heavily impacting gross margin. Briscoe's revenue and EBIT for the homeware and sporting goods segments from FY11 to FY15 are presented below:

Historical Segment Performance – FY11 to FY15 (NZ$ millions)

Revenue



EBIT



5.2 Historical Financial Performance

The financial performance of Briscoe for the years ended 27 January 2013 (**FY13**), 26 January 2014 (**FY14**) and 25 January 2015 (**FY15**) is shown below:

Briscoe Historical Financial Performance (NZ$ millions)

January Year end	2013A	2014A	2015A
Total number of stores	80	78	79
Total store area (000s m^2)	145	146	150
Sales per m^2	3,124	3,306	3,385
Sales revenue	452.7	483.6	507.1
Cost of goods sold	(276.8)	(297.4)	(309.8)
Gross profit	**175.9**	**186.2**	**197.2**
Gross profit margin %	*38.9%*	*38.5%*	*38.9%*
Other operating income	0.2	0.1	2.3
Store expenses	(81.4)	(85.3)	(87.0)
Administration expenses	(48.1)	(49.9)	(54.0)
Total operating expenses	**(134.2)**	**(135.3)**	**(140.9)**
Total operating expenses as a % of sales	*29.7%*	*28.0%*	*27.8%*
EBITDA	**47.1**	**51.0**	**58.7**
EBITDA margin %	*10.4%*	*10.6%*	*11.6%*
Depreciation & amortisation	(6.1)	(5.8)	(5.5)
EBIT	**41.0**	**45.2**	**53.1**
Net finance income	1.7	1.7	1.8
Taxation	(12.2)	(13.4)	(15.6)
NPAT	**30.5**	**33.6**	**39.3**

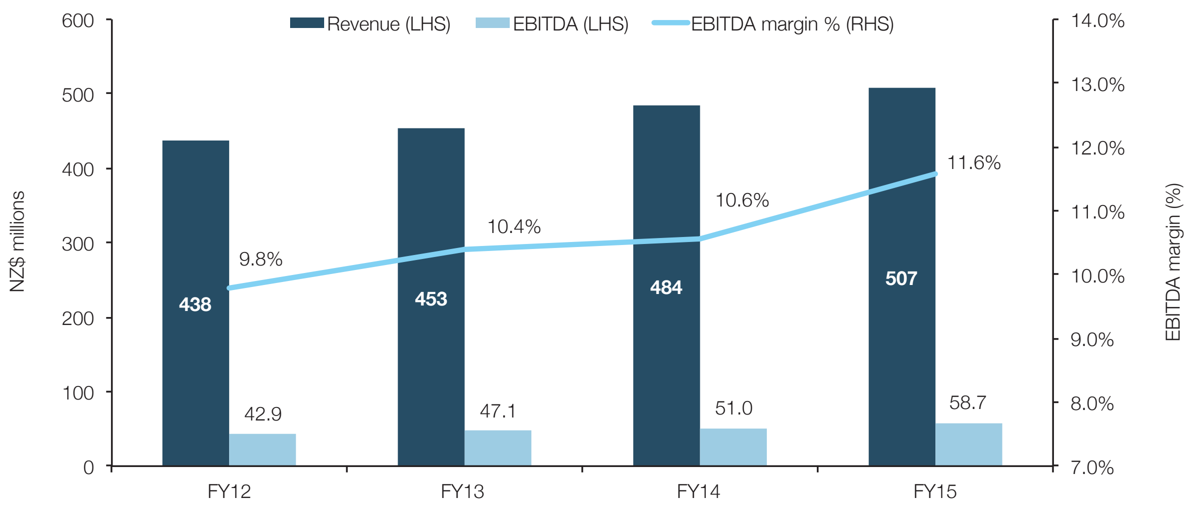
Source: Briscoe Annual Reports 2013 - 2015

The following points are relevant when considering the above table:

- Briscoe has achieved consistent growth in sales, gross margin, EBIT and NPAT over the past five years. The business has delivered solid same stores sales generated by a combination of a strong value proposition, a focus on stock management and a co-ordinated and effective marketing strategy. Briscoe believes that a key reason for its success relative to other large format retailers has been the single stream focus on homeware and sporting goods. The proposed takeover of Kathmandu appears consistent with an extension of this philosophy; and
- Briscoe enjoys relatively stable gross margins and has very good control over its operating expenses, resulting in consistent growth in net profit after tax. In the financial year to 25 January 2015 NPAT increased by 17.1% on the previous year to NZ$39.3 million. Gross profit in the same period increased by 6% to NZ$197 million, representing a gross margin of 38.9%. EBIT in 2015 was NZ$53.1m, compared to NZ$45.2m in the year to 27 January 2014, an increase of 17.5%. The relative contribution to EBIT was Rebel Sports 36%, Briscoe Homewares 64%.

- The trend in Briscoe's revenue, EBITDA and EBITDA margin from FY12 to FY15 is outlined below:

Briscoe Revenue, EBITDA and EBITDA margin (FY12 to FY14)



- Briscoe has been growing both revenue per store and revenue per square metre of floor area from FY12 to FY15, which has contributed to the growth in revenue and earnings;
- the recent rapid decline in the value of the NZ dollar relative to the US dollar is likely to have an adverse impact on Briscoe's margins over time. The Briscoe CFO commented in an address to the AGM in May 2015:

  "it is inevitable that importer's margins (including our own) will be adversely affected over time by the impact of the weaker NZD in relation to the USD and it would be unreasonable to expect the gross margin gains that we have experienced in the first part of the year to continue at the same level"

- lowering margins (particularly as forward foreign exchange cover runs off) and flat sales will likely see a decline in the earnings of the homeware segment. The very strong start from Rebel Sport, despite probable lower margins, is still likely to offset the likely performance of homewares and contribute to a further annual increase in earnings for Briscoe in FY16F;
- other income in FY15 comprises rental income of NZ$1.0m and earthquake insurance recoveries of NZ$1.3m; and
- Quarter four of each financial year is critical, covering the Christmas period. Briscoe notes that the Q4 period in 2015 was adversely affected by unseasonal weather conditions resulting in sluggish growth leading up to the key Christmas period.

Outlook

- Briscoe has not publicly released detailed earnings forecasts for FY16 or beyond. However, in its notice of the FY15 results Briscoe commented that it was *"cautiously optimistic about the outlook for 2016 and that it had made a pleasing start to the year*". Specific initiatives include the major refurbishments of the Invercargill and Gisborne Briscoe Homeware stores and the relocation of the Hamilton and Taupo Briscoe Homewares stores to larger sites. It is understood Briscoe has identified and in some instances acquired sites for new Briscoe and Rebel Sports stores which should ensure continued growth in revenue and earnings; and
- in order to provide an indication of the expected future financial performance of Briscoe, Grant Samuel has also considered brokers' forecasts for Briscoe (see section 6).
- in the announcement of the second quarter sales figures the company noted:

  "We are expecting to report a record half year Net Profit After Tax (NPAT) of at least $20 million. This would represent an 8% increase over the last year's result of $18.5 million, but more than 19% in normalised NPAT terms, when adjusted for the Business Interruption insurance recovery booked last year, and the costs incurred to date this year in relation to the takeover offer and the acquisition of shares in Kathmandu."

5.3 Segment Performance

Briscoe's segment results are outlined below:

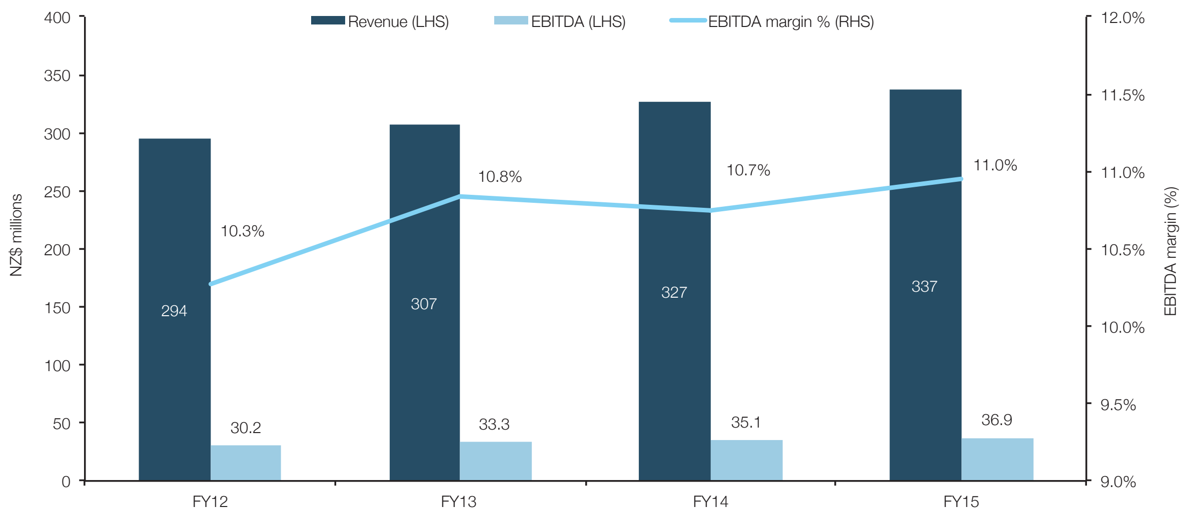
Homeware

Briscoe Homeware Segment Results (NZ$ millions)

January Year End	2012A	2013A	2014A	2015A
Number of stores	47	48	46	46
Total store area (000 m^2)	91	93	94	96
Revenue NZ$ per m^2	3,249	3,301	3,461	3,520
Revenue	294.4	307.1	326.7	337.2
Revenue growth	*2.7%*	*4.3%*	*6.4%*	*3.2%*
Cost of sales	(176.9)	(183.4)	(201.8)	(207.9)
Gross margin	**117.6**	**123.7**	**125.0**	**129.3**
Gross margin %	*39.9%*	*40.3%*	*38.2%*	*38.3%*
Operating expenses	(87.3)	(90.4)	(89.9)	(92.4)
EBITDA	**30.2**	**33.3**	**35.1**	**36.9**
EBITDA margin %	*10.3%*	*10.8%*	*10.7%*	*11.0%*
Depreciation	(4.1)	(4.0)	(3.9)	(3.8)
EBIT	**26.2**	**29.3**	**31.2**	**33.2**

The homeware segment has delivered consistent growth in revenue over the past four years with growth ranging from 2.7% to 6.4% p.a. A strong focus on cost control has seen EBITDA increase from $30.2 million in FY12 to $36.9 million in FY15A and the EBITDA margin increase from 10.3% to 11.0% over the corresponding period. The trend in homeware segment revenue, EBITDA and EBITDA margin from FY12A to FY15A is outlined below:

Homeware Segment Revenue, EBITDA (NZ$ millions) and EBITDA margin (%) – FY12A to FY15A



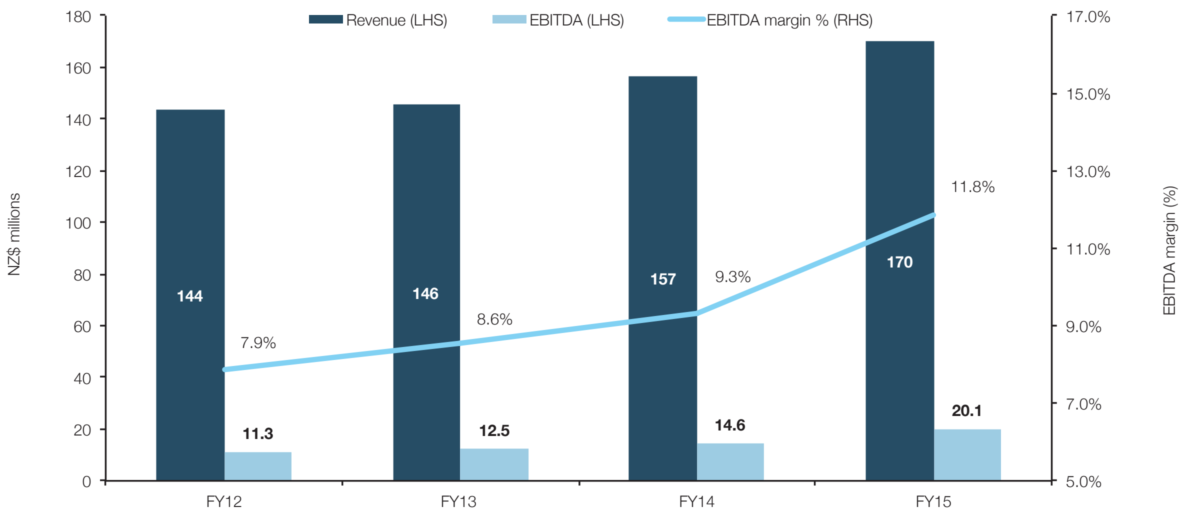
Sporting Goods

Briscoe Sporting Goods Segment Results (NZ$ millions)

Year end 31 July	2012A	2013A	2014A	2015A
Number of stores	32	32	32	33
Total store area (000 m^2)	51	52	52	54
Revenue NZ$ per m^2	2,793	2,807	3,023	3,146
Revenue	143.6	145.7	156.8	169.9
Revenue growth	*8.3%*	*1.4%*	*7.7%*	*8.3%*
Cost of sales	(88.1)	(88.2)	(95.6)	(101.9)
Gross margin	**55.5**	**57.4**	**61.2**	**67.9**
Gross margin %	*38.7%*	*39.4%*	*39.0%*	*40.0%*
Operating expenses	(44.2)	(44.9)	(46.6)	(47.8)
EBITDA	**11.3**	**12.5**	**14.6**	**20.1**
EBITDA margin %	*7.9%*	*8.6%*	*9.3%*	*11.8%*
Depreciation	(2.1)	(2.1)	(1.9)	(1.8)
EBIT	**9.2**	**10.4**	**12.6**	**18.4**

The trend in the sporting goods segment revenue, EBITDA and EBITDA margin from FY12 to FY15 is outlined below:

Sporting Goods Segment Revenue, EBITDA (NZ$ millions) and EBITDA margin (%) – FY12A to FY15A



The sporting good segment has achieved strong growth in revenue in recent years with annual growth of between 7.7% and 8.3% for three of the last four financial years. The EBITDA margin has increased from 7.9% in FY12 to 11.8% in FY15 and EBITDA has grown from $11.3 million to $20.1 million over the corresponding period.

5.4 Financial Position

The financial position of Briscoe as at 26 January 2014 and 25 January 2015 is outlined below:

Briscoe – Financial Position (NZ$ millions)

As at	26 Jan 2014	25 Jan 2015
Inventories	84.8	89.7
Cash and cash equivalents	69.3	73.5
Trade and other receivables	3.6	3.8
Derivative financial instruments	0.4	3.7
Current assets	**158.1**	**170.8**
Property, plant and equipment	54.6	61.6
Intangible assets	1.4	1.5
Deferred tax	1.3	0.9
Non-current assets	**57.3**	**64.0**
Total assets	**215.4**	**234.8**
Trade and other payables	(62.8)	(65.7)
Employee benefits	(7.8)	(8.5)
Income tax payable	(3.3)	(4.1)
Other current liabilities	(0.3)	(0.1)
Current liabilities	**(74.2)**	**(78.5)**
Non-current liabilities (employee benefits)	(0.5)	(0.7)
Total liabilities	**(74.7)**	**(79.2)**
Net assets	**140.6**	**155.6**

5.5 Cash Flows

The cash flows for Briscoe for FY14 and FY15 are shown in the table below:

Briscoe – Cash Flows (NZ$ millions)

January Year End	2014A	2015A
EBITDA	51.0	58.7
Change in working capital	7.1	(2.0)
Income tax paid	(13.9)	(15.5)
Net interest income	1.8	1.6
Other operating cash flows	0.1	2.3
Net cash flow from operations	**46.1**	**45.1**
Net purchase of property, plant & equipment	(15.2)	(11.6)
Purchase of intangible assets	(0.9)	(1.1)
Net cash flow from investing	**(16.2)**	**(12.7)**
Proceeds from share issue	2.0	1.4
Dividends paid	(24.7)	(29.2)
Net cash flow from financing	**(22.7)**	**(27.8)**
Net cash flow	**7.2**	**4.6**
Foreign exchange impact	-	0.3
Opening cash	77.5	84.8
Closing cash	**84.8**	**89.7**

5.6 Capital Structure and Ownership

As at 17 July 2015 Briscoe has 217,178,500 ordinary shares on issue and 3,394 registered shareholders with the top 10 registered shareholders accounting for approximately 87.9% of the shares on issue. The only substantial shareholder of Briscoe is Mr Rod Duke with 78.2% of the shares on issue. As a consequence, liquidity is constrained and daily transaction volumes have averaged only 18,000 shares per day over the 12 months prior to the announcement of the Briscoe Offer. There are very few institutional shareholders on the Briscoe share register.

Briscoe – Top 10 Shareholders as at 17 July 2015

Shareholder	Shares (millions)	%
Rod Duke and associated interests	169.8	78.2%
Gerald Harvey	5.3	2.4%
Harvey Norman Properties (NZ) Limited	5.3	2.4%
New Zealand Central Securities Depository	4.4	2.1%
FNZ Custodians Limited	1.4	0.7%
Alaister & Beverley Wall and Benedict Tauber	1.2	0.6%
JBWere (NZ) Nominees Limited	1.0	0.5%
Stuart & Lorraine Johnstone	1.0	0.5%
Graham Paull & Owen Ennor	0.8	0.4%
Manhattan Trustee Limited	0.7	0.3%
Top 10 shareholders	**190.9**	**87.9%**
Other shareholders	26.3	12.1%
Total	**217.2**	**100.0%**

Source: NZX Research

6. Value of the Consideration under the Briscoe Offer

6.1 Summary

Under the terms of the Briscoe Offer, Kathmandu shareholders are being offered consideration of:

- Five (5) Briscoe shares for every nine (9) Kathmandu shares; plus
- NZ$0.20 cash per Kathmandu share.

Grant Samuel has attributed a value to the scrip and cash consideration of $1.73 - $1.84 per Kathmandu share based on a value range for Briscoe shares of $2.75 - $2.95 per share.

The value of the scrip component will vary with movements in the Briscoe share price. Accordingly, if the takeover offer is successful, Kathmandu shareholders will be exposed to factors that impact the Briscoe share price as well as Kathmandu which will be a subsidiary of Briscoe. Depending on the circumstances, significant (and sustained) movements in the Briscoe share price could change the value of the Briscoe takeover offer.

6.2 Approach

The Briscoe takeover offer involves a change of control of Kathmandu. For the purposes of takeover analysis the relevant test for Kathmandu shareholders is the expected market value of the Briscoe shares. This involves an estimation of the trading price for Briscoe if the Briscoe takeover offer is successful (rather than a pre bid price).

It is normal practice to use the post announcement market price as the starting point for estimating the value of an offer with a scrip component. An alternative method is to estimate the underlying value of the combined entity and then to apply a discount to reflect a portfolio interest. However, access to the detailed financial and operational information (such as earnings and operational forecasts or asset plans) of both parties is required to undertake such a fundamental analysis of the value of the consideration. Furthermore, the consensus view of a well traded market is likely to be a more reliable estimate than that of a single external observer. Market prices (particularly for entities that are followed by a number of market analysts) usually incorporate the influence of all publicly available information on an entity's prospects, future earnings and risks.

Grant Samuel has had regard to the market price of Briscoe and addressed the following questions:

- ***is there any reason why the market price is not a true reflection of the fair market value of Briscoe shares?*** For example, there could be:
  - important information about the entity and its business/assets which would affect the share price but is not in the public domain;
  - mispricing by the market; and/or
  - abnormal trading activity in Briscoe shares.
- ***will the takeover offer, if successful, have a material impact on Briscoe's financial metrics, growth prospects or risk profile?***

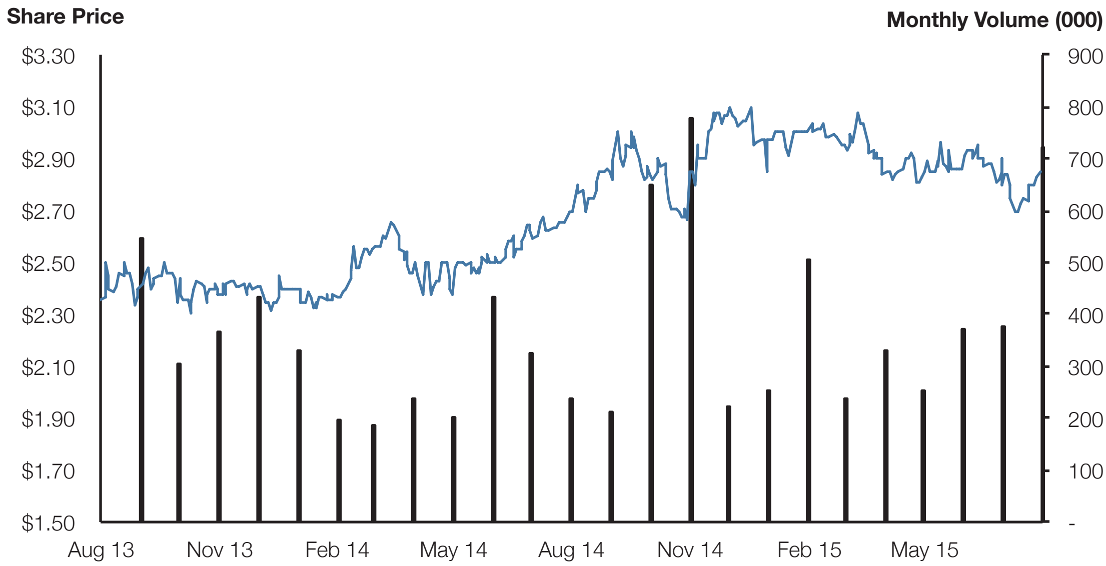
In considering these questions, Grant Samuel has:

- analysed the recent trading in Briscoe shares;
- reviewed broker analyst research on Briscoe; and
- analysed the impact of the Briscoe takeover offer on Briscoe's key financial metrics.

6.3 Analysis of the Market for Briscoe Shares

The share price and trading volume history of Briscoe shares during the last two years is depicted below:

Briscoe – Share price performance and trading volume over the last two years



The following comments are relevant when considering the above graph:

- over the last two years Briscoe's share price has increased from NZ$2.30 to NZ$2.85 (up 23.9%). The share price has increased steadily, reflecting in part consistent revenue and earnings growth and favourable market conditions in New Zealand with the NZX Capital Index increasing from 2,527 to 2,999 (up 18.7%);
- on 30 July 2015 Briscoe announced that sales for the first half of FY16 has increased by 5.4% over the corresponding period in FY15. The homeware segment increased sales by 3.0% and sales for the sporting goods segment increased by 10.1%. Growth in the sporting goods sales was contributed to by two new Rebel sport stores (same store sales was 7.3%);
- on 30 June 2015 Briscoe announced that it had acquired a 19.9% shareholding in Kathmandu and that it intended to lodge a takeover notice imminently in respect of the remaining shares in Kathmandu that it did not already own. Immediately following the announcement Briscoe shares closed at NZ$2.90 per share. Since then, Briscoe shares have traded in the range NZ$2.70 to NZ$2.93 per share (at a VWAP of NZ$2.80 per share and closed at NZ$2.85 per share on 30 July 2015;
- on 6 May 2015, Briscoe announced that its same store growth was 3.4% above the first quarter for last year, largely driven by 10.9% growth from Rebel. The home segment was relatively flat with 0.5% growth due to a highly competitive market with relentless promotional activity. The share price remained unchanged after the announcement;
- on 29 January 2015, Briscoe announced that its sales for the financial year ending 25 January 2015 were 4.7% higher than previous financial year. The fourth quarter period of the 2015 financial year was also positive, with same stores growth of 3.1% despite tough trading conditions due to unseasonal weather conditions. The fourth quarter result represented a fifteenth straight quarter of same stores growth; and
- on 5 November 2014, Briscoe announced that sales for the first three quarters of the financial year ending 25 January 2015, were 5.8% higher than the same period of the previous financial year. This announcement was well received by the market resulting in the share price closing at NZ$2.95 on 6 November, up NZ$0.15 on the previous day.

The important question is whether the recent performance and current price reflect the rational view of a well-informed market or, alternatively, whether Briscoe is out of line with its peers or the market. In addressing this issue the following factors have been considered:

Liquidity

Briscoe is not part of any Index, reflecting its very small free float by virtue of the 78.2% shareholding of Rod Duke. The volume of shares traded over the twelve months prior to the announcement of the proposed takeover of Kathmandu represented approximately 2.1% of average shares on issue. The share price range, average volume and transactions for Briscoe shares over the last 12 months are summarised below:

Briscoe – Share Trading Summary (NZ$)

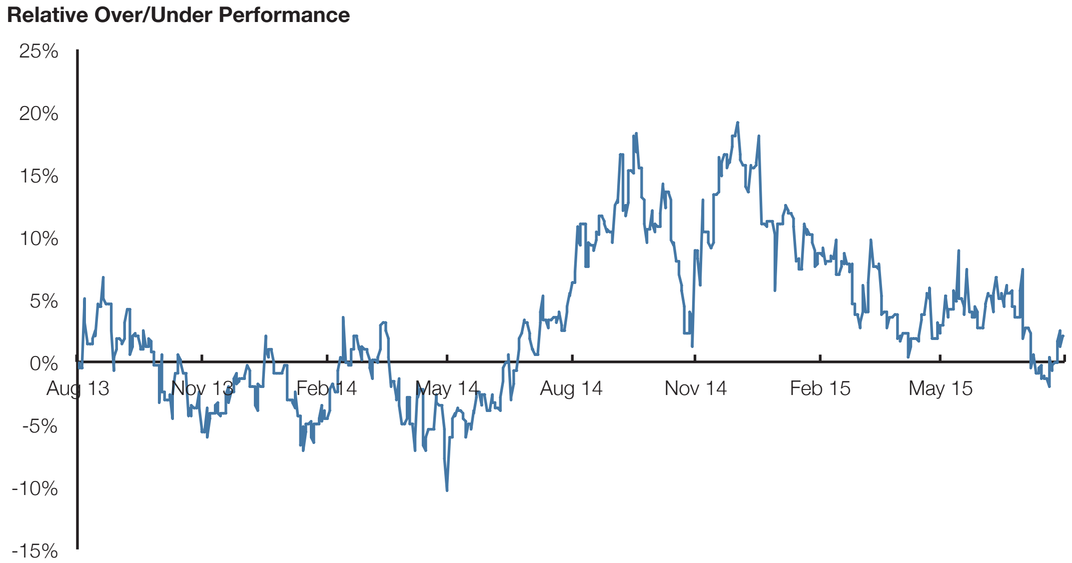
Time period	Low	High	VWAP	Volume (000)	Average Daily volume (000)
Post takeover announcement	$2.70	$2.93	$2.80	785	95.8
Pre takeover announcement					
1 month	$2.81	$2.95	$2.88	377	17.9
3 months	$2.81	$2.96	$2.88	1,000	16.4
6 months	$2.81	$3.08	$2.93	2,075	17.1
12 months	$2.59	$3.10	$2.89	4,535	18.1

The average daily volume of shares traded has more than doubled following the announcement of Briscoe's intention to make an Offer when compared to the previous months trading. While the volume of trading activity in Briscoe securities has generally increased since the announcement of the Briscoe, there is nothing to indicate any specific abnormal trading in Briscoe shares and the volumes being traded are still relatively low.

Briscoe Compared to the Market

Briscoe's share price against the NZX50 index over the last 2 years is shown in the graph below:

Briscoe – Share price performance relative to the NZX50 Capital Index

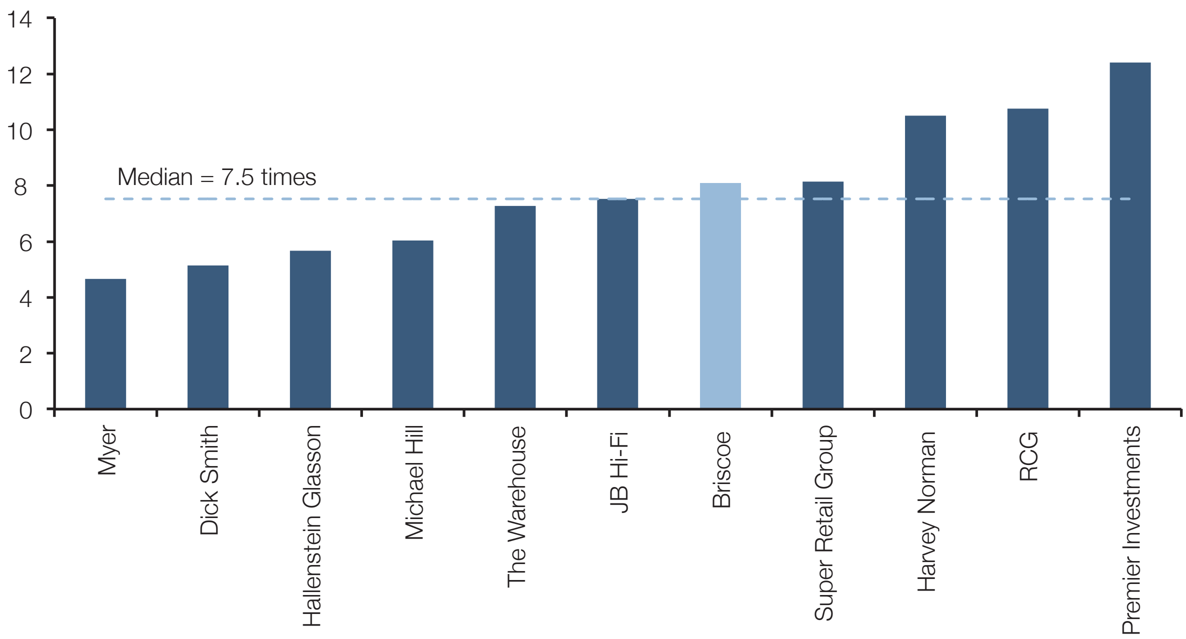


As outlined above, over the last 2 years Briscoe has slightly outperformed relative to the NZX50 Capital Index. As at 30 July 2015, Briscoe out performed the NZX50 Capital Index by circa 2% over the two-year period. Briscoe out performed the market in the second half of 2014 as the share price increased to a high of NZ$3.10 in early December, likely due to the Q3 sales performance which delivered 3% and 9% same stores growth in Homeware and Sporting Goods respectively.

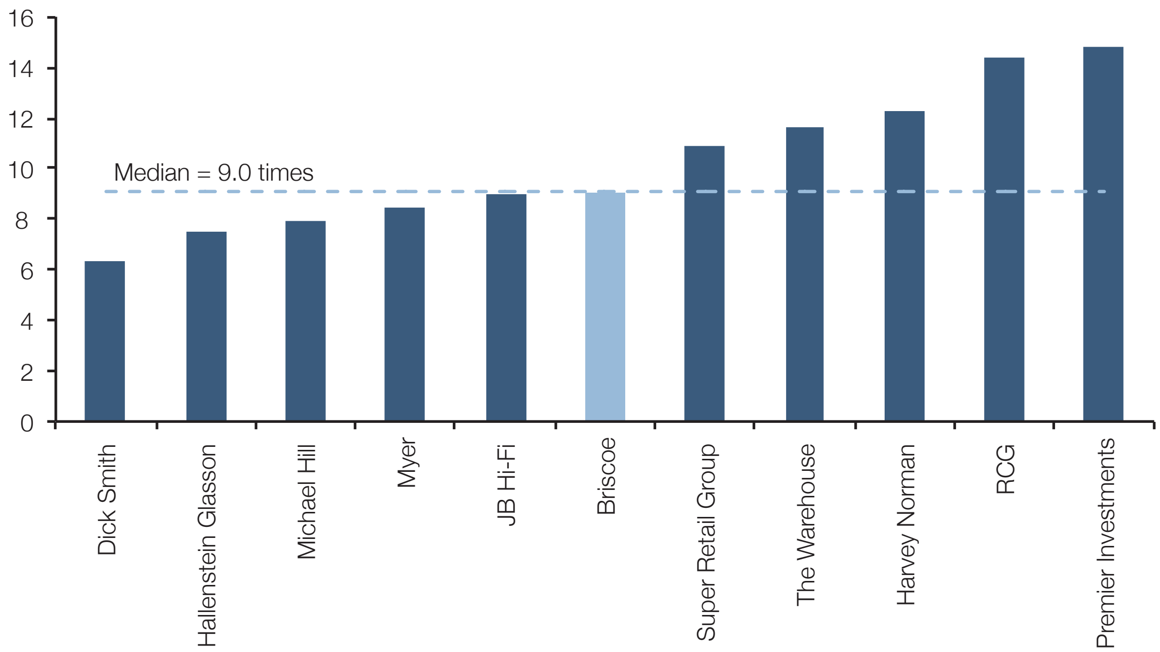
Briscoe Compared to its Peers

Briscoe's market ratings (in terms of EBITDA multiples and EBIT multiples) relative to its peers are illustrated below:

Listed Australasian Retailers – FY16 Forecast EBITDA multiples



Listed Australasian Retailers – FY16 Forecast EBIT multiples



Source: Grant Samuel Analysis

The following comments are relevant when considering the above graphs:

- as at 30 July 2015, the earnings multiples implied by the Briscoe share price are at a slight premium to with the multiples of the comparable peer group. The business is viewed favourably by market analysts that observe that the business is well managed with a clear operating strategy. Briscoe does trade at a discount to Premier Investments, RCG and Harvey Norman:
  - Harvey Norman's business model is different to the comparable group as it is a franchisor. Harvey Norman also has an extensive property portfolio worth over A$1.9 billion;
  - Premier Investments and RCG both trade at a premium when compared with the Australasian listed retailers, largely due to their attractive growth prospects; and
  - unlike most of the Australasian listed retailers, with the exception of The Warehouse, Briscoe only generates revenue in New Zealand and is unlikely to expand overseas (with its existing brands) limiting its growth potential.
- there are considerable differences between the operations and scale of the comparable companies when compared with Briscoe. While none of the comparable companies listed above are precisely comparable to Briscoe, the share market data provides a basis for assessing a value for Briscoe.

Broker Target Prices

The broker 12 month target prices for Briscoe are summarised below:

Briscoe – Broker Target Prices

Broker	Date of Last Report	Target Price			
		Aug 14 - Sep 14	Oct 14- Jan 15	Feb 15 – June 15	Post Offer announcement
Broker 1	5 March	$3.23	$3.23	$3.23	n.a.
Broker 2	6 May	n.a.	$2.90	$3.05	n.a.
Broker 3	31 July	$3.00	$3.00	$3.10	$3.40
Median		**$3.11**	**$3.00**	**$3.10**	**$3.40**

Source: Brokers' reports. n.a. means not available.

Briscoe's closing share price on 30 June 2015 of NZ$2.85 is slightly below the median broker target price (although this would be expected given the target prices are typically for 12 months out from the research date). While there is no firm conclusion that can be drawn from this analysis, at a minimum, there is no evidence to suggest Briscoe shares are currently materially out of line with broker target prices.

Non Public Information

Under both NZX and ASX Listing Rules, Briscoe is required to keep the market informed of events and developments in a timely manner as they occur. Once Briscoe becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of its securities, it must inform the market of that information. Consequently, there is no reason to consider that any information relating to Briscoe's standalone business that would have a material impact on its shares price has not been publicly disclosed.

6.4 Impact of Briscoe Offer for Kathmandu

The pro forma balance of the combined group based on the Kathmandu balance sheet as at 31 January 2015 and the Briscoe balance sheet as at 25 January 2015, as set out in Briscoe's Offer document, is outlined below:

Pro Forma Balance Sheet (NZ$ millions)[18]

	Kathmandu 31 January 2015	Briscoe 25 January 2015	Pro Forma Adjustments	Pro Forma Combined Group
Inventories	97.3	73.5	-	170.8
Derivative financial instruments	15.4	3.7	-	19.1
Current tax asset	6.2	-	(4.1)	2.1
Cash and cash equivalents	1.8	89.7	(89.7)	1.8
Trade and other receivables	4.0	3.8	-	7.8
Total current assets	**124.7**	**170.7**	**(93.8)**	**201.6**
Property, plant & equipment	50.6	61.6	-	112.2
Intangible assets	236.3	1.5	65.6	303.4
Deferred tax	0.9	0.9	-	1.8
Total non-current assets	**287.8**	**64.0**	**65.6**	**417.4**
Total assets	**412.5**	**234.7**	**(28.2)**	**619.0**
Trade and other payables	31.1	74.3	(26.4)	79.0
Interest bearing liabilities	87.3	-	(50.0)	37.7
Current tax liabilities	-	4.1	(4.1)	-
Total current liabilities	**118.4**	**78.4**	**(80.1)**	**116.7**
Interest bearing liabilities	-	-	87.3	87.3
Derivative financial instruments	0.5	-	-	0.5
Other non-current liabilities	-	0.7	-	0.7
Total non-current liabilities	**0.5**	**0.7**	**87.3**	**88.5**
Total liabilities	**118.9**	**79.1**	**7.2**	**205.2**
Contributed equity	200.2	46.6	58.0	304.8
Reserves	(6.4)	3.9	6.4	3.9
Retained earnings	99.8	105.1	(99.8)	105.1
Total equity	**293.6**	**155.6**	**6.4**	**413.8**
Total liabilities and equity	**412.5**	**234.7**	**(28.2)**	**619.0**

The following points are relevant when reviewing the table above:

- the Briscoe balance sheet as at 25 January 2015 has been adjusted to account for a NZ$26.4m payment of trade and other payables made after the balance date but on or before 31 January 2015. No other adjustments were made to allow for the differing balance dates;

[18] Source: Briscoe Group Offer Document.

- The pro forma balance sheet assumes that Briscoe acquires 100% of the shares of Kathmandu for NZ$359.2m on 31 January 2015, funded by then existing cash reserves and a drawdown of debt, together totalling NZ$101.0m, and an issue of 89.6m Briscoe shares for the balance at an assumed price of NZ$2.88 per share (being the one month VWAP of Briscoe shares on the NZX up to and including 29 June 2015, the trading day prior to Briscoe announcing its intention to make the Offer;
- The pro forma balance sheet incorporates goodwill of $141.0m arising on the proposed acquisition. This has been calculated on the assumption that the book value of Kathmandu's net assets as at 31 January 2015 equates to fair value. The only adjustment made to Kathmandu's reported net assets was to exclude purchased goodwill, estimated at NZ$75.4m; and
- Briscoe would move from a net cash position of $90m (prior to the acquisition of the 19.9% shareholding in Kathmandu) to a net debt position of approximately $125m assuming the Briscoe Offer is successful. On a pro forma basis the net debt of the combined group would be equivalent to approximately 1.0 times EBITDA. The pro forma net debt / equity ratio of the combined group would be approximately 30%.

The pro forma income statement of the combined group based on Kathmandu's forecast for the financial year ending 31 July 2016 and the average broker estimate for Briscoe's financial performance for the financial year ending 31 January 2016 is outlined below:

Pro Forma Income Statement (NZ$ millions)

	Kathmandu Forecast for year ending 31 July 2016	**Briscoe Average Broker Estimate for year ending 31 January 2016**	**Pro Forma Adjustments**	**Pro Forma Combined Group**
Revenue	454.6	533.8	-	988.4
EBITDA	**63.2**	**62.4**	**-**	**125.6**
EBITDA margin %	*13.9%*	*11.7%*	-	*12.7%*
Depreciation	(15.0)	(6.6)	-	(21.6)
EBIT	**48.2**	**55.9**	**-**	**104.1**
EBIT margin %	*10.6%*	*10.5%*		*10.5%*
Interest income / (expense)	(3.3)	2.0	(5.0)	(6.3)
Taxation	(14.7)	(16.4)	1.3	(29.7)
NPAT	**30.2**	**41.6**	**(3.6)**	**68.2**
Number of shares	201.5	217.2	(112.0)	306.7
Earnings per share (forecast)[19]	$0.150	$0.192	-	$0.222

The pro-forma analysis above assumes that:

- Briscoe acquires 100% of Kathmandu, funding the purchase of the 80.1% of remaining shares from existing cash reserves, a drawdown of debt and issuing 89.6m Briscoe shares;
- the pro forma interest expense of the combined group is calculated as pro-forma group net borrowings of NZ$125m at an assumed interest rate of 5.0% p.a. This equates to an annual interest expense of NZ$6.3m;
- the pro forma taxation expense of the combined group is calculated as the pro forma combined net profit before tax multiplied by the blended corporate tax rate of Kathmandu and Briscoe (calculated at 30.3%);

The pro forma financial information makes no allowance for any cost savings or synergy benefits which may result from the proposed integration of the businesses and provides no guidance in relation to future distributions for the combined entity.

[19] Calculated as NPAT divided by the number of shares on issue.

The pro forma analysis indicates that at the current offer price:

- the acquisition is accretive to Briscoe's earnings per share (**EPS**). Briscoe's forecast EPS is estimated to increase from $0.192 per share before the offer to $0.222 per share following the offer. This represents an approximate 16% increase in Briscoe's forecast EPS;
- based on Briscoe's payout ratio of around 77%, the Briscoe dividend per share would increase from 14 cents per share to approximately 17 cents per share;
- for the purposes of comparison of divided yield, it is assumed that the cash component of the Briscoe Offer is also invested in Briscoe shares. Under this assumption 9 Kathmandu shares would be the equivalent of approximately 5.64 Briscoe shares. If Briscoe paid a dividend of 17 cents per share that would be equivalent to a dividend per Kathmandu share of 10.7 cents. Historically Kathmandu has paid a dividend of 12 cents per share. This analysis implies that from a dividend yield perspective there is some transfer of value from Kathmandu shareholders to Briscoe shareholders;
- the revenue of the combined group would be nearly NZ$1.0b, with EBIT of greater than NZ$100m; and
- the operating profit (i.e. EBIT) margin of the combined group would remain relatively unchanged from Briscoe's current EBIT margin of 10.5%. However, Briscoe's EBITDA margin should improve following the acquisition as Kathmandu is forecast to achieve a higher EBITDA margin than Briscoe (13.9% versus Briscoe's 11.7%). This highlights the greater capital intensity of Kathmandu, which has a greater depreciation expense (both as a percentage of sales and on an absolute basis).

The pro forma information above is an estimate only and will change if the consideration under the Briscoe Offer changes.

No detailed financial information on the combined group has been provided other than a pro forma statement of financial position. However, analysis of the impact of the takeover offer on Briscoe is reasonably straightforward insofar as it is a conventional 100% acquisition. Both Briscoe and Kathmandu are relatively transparent entities and followed by brokers. It is reasonable to believe that the market has had time to assess the proposed Briscoe takeover offer and its implications for Briscoe and that the estimated impacts are reflected in current trading in Briscoe shares.

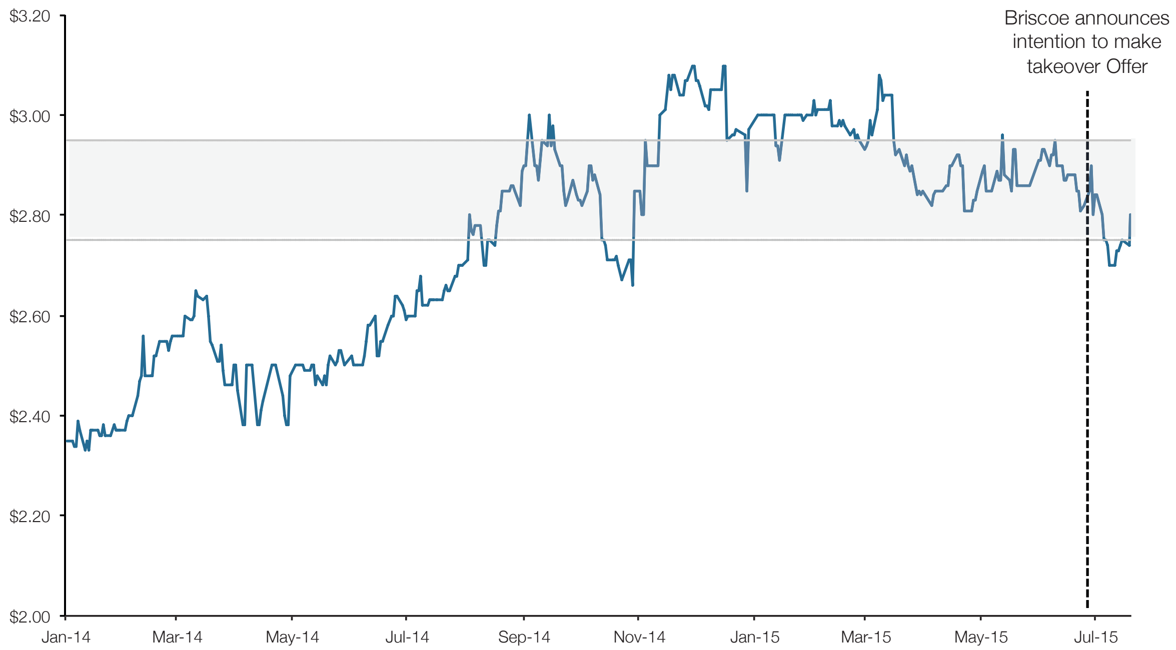
6.5 Conclusion

The Briscoe offer was announced 1 July 2015 and the Offer is dated 22 July 2015. In this time, trading in Briscoe shares has continued to be sporadic reflecting to a large extent the illiquid nature of the Briscoe's shares. Nevertheless:

- there is no evidence to suggest that the current Briscoe share price does not reflect the rational view of an informed market or that Briscoe is trading on a basis relative to its peer group that is not sustainable; and
- retail companies such as Briscoe and Kathmandu are relatively transparent and the market has had sufficient opportunity to absorb and analyse the impact of the transaction. Therefore, the impact of the potential takeover of Kathmandu should be reflected in Briscoe's current share price although there is some uncertainty at this time as to the operational and financial implications of the Briscoe takeover offer for Briscoe, and more importantly whether the takeover offer will be successful.

Grant Samuel's judgement is that, for the purposes of assessing the Briscoe Offer, a Briscoe share price of NZ$2.75 to NZ$2.95 is a reasonable estimate in current market conditions. This range takes into account the performance of Briscoe shares since the announcement of the Briscoe Offer for Kathmandu, the limited information available in relation to the combined entity and current market conditions.

Briscoe Share Price (January 2014 – July 2015)



Grant Samuel considers that the selected range is reasonable for the purposes of assessing the Briscoe takeover offer given that the current shares price is in line with the current median broker target price. The selected value range implies the following values for the Briscoe offer:

Value of Briscoe Offer

Briscoe Share price	Value of Scrip component of Briscoe Offer (per Kathmandu share)	Value of cash component of Briscoe Offer (per Kathmandu share)	Implied value per Kathmandu share
$3.05	$1.69	$0.20	$1.89
$3.00	$1.67	$0.20	$1.87
$2.95	$1.64	$0.20	$1.84
$2.90	$1.61	$0.20	$1.81
$2.85	**$1.58**	**$0.20**	**$1.78**
$2.80	$1.56	$0.20	$1.76
$2.75	$1.53	$0.20	$1.73
$2.70	$1.50	$0.20	$1.70
$2.65	$1.47	$0.20	$1.67

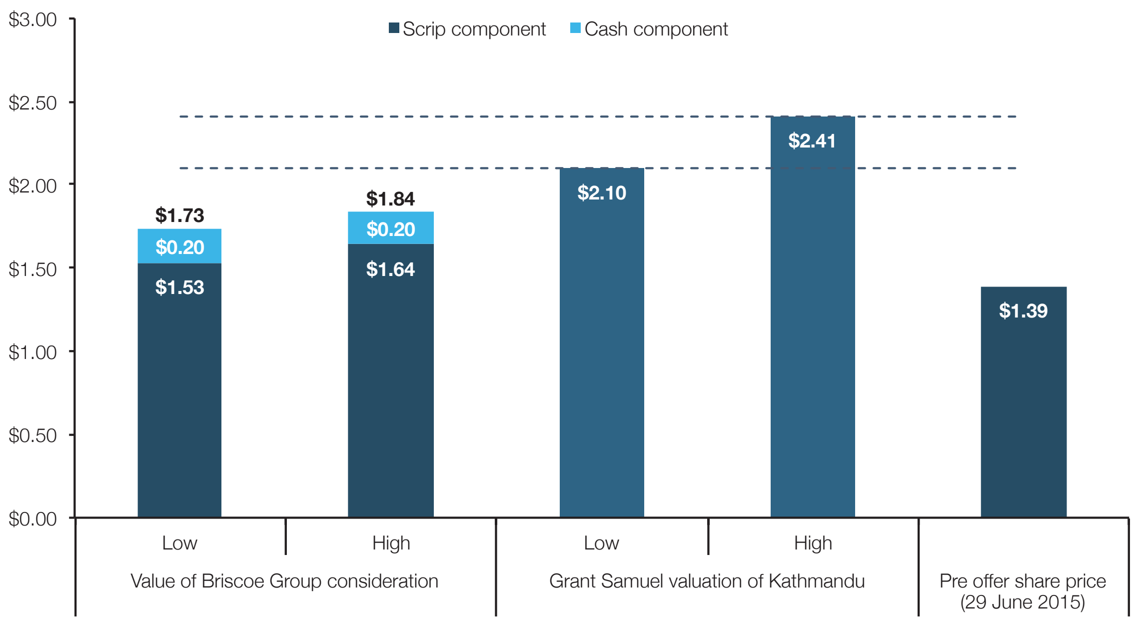
7. Merits of the Briscoe Offer

7.1 The Value of the Briscoe Offer

The value of the Briscoe Offer can be assessed with reference to a number of factors:

- ***Grant Samuel's assessment of the value of Kathmandu.*** In Grant Samuel's opinion the full underlying value of Kathmandu shares is in the range of NZ$2.10 to NZ$2.41 per share as set out in Section 5. This represents the value of acquiring 100% of the equity in Kathmandu and therefore includes a premium for control. In Grant Samuel's opinion the offer price under a takeover offer where the offeror will gain control should be within, or exceed, the pro-rated full underlying valuation range of the company. The assessed value of the Briscoe Offer of 5 Briscoe's shares for every 9 Kathmandu shares plus NZ$0.20 cash for every Kathmandu share held is below Grant Samuel's assessed value range for Kathmandu shares. The diagram below compares the Briscoe Offer price with Grant Samuel's assessed value range and the Kathmandu share price immediately prior to the announcement that a takeover offer was expected from Briscoe:

Kathmandu Valuation versus Value of Briscoe Consideration and pre offer share price (NZ$ per share)



- ***the premium implied by the Briscoe Offer.*** The Offer represents a premium of 24.5% - 32.4% relative to the closing price of NZ$1.39 per share on 29 June 2015, being the last trading day prior to the announcement that Briscoe had acquired a 19.9% shareholding in Kathmandu and that a notice of intention to make a full takeover offer was imminent (and would be made the next day). The premium for control range is broadly consistent with the premiums for control generally observed in successful takeovers of other listed companies. Since the announcement of the Briscoe Offer, Kathmandu shares have traded in the range of NZ$1.55 to NZ$1.80 per share.

7.2 The timing and circumstances surrounding the Briscoe Offer

Briscoe acquired a 4.99% shareholding in Kathmandu over time. It increased this shareholding to 19.9% immediately before announcing that it would make a full takeover offer for Kathmandu by purchasing a further 14.91% of shares from a number of institutional shareholders at a price of $1.80 per share.

Briscoe has stated in its Offer that it sees "*the operations of both businesses as being complementary in terms of the markets they serve and the products they offer*". The Briscoe Directors state that they intend for Kathmandu to operate with its own brands and branding if the Offer is successful. Apart from the sharing of strategy, structures and practices between the businesses, Briscoe has identified potential benefits and synergies to include: design, manufacture and distribution; online operations; inventory management and logistics; operations management; support services; property; and systems. Grant Samuel has not attributed any value to these potential synergies.

7.3 Possible outcomes of the Briscoe Offer

Briscoe does not receive acceptances which will result in Briscoe becoming the holder or controller of more than 50 % of the voting rights in Kathmandu

If Briscoe does not receive acceptances that will result in it becoming the holder or controller of more than 50% of the voting rights in Kathmandu, the offer will lapse and no shares will be acquired by Briscoe. In that circumstance, Briscoe will continue to own its existing shareholding of 19.9% of Kathmandu. Under the Takeovers Code, a shareholding in any listed or code company between 20% and 50% is not permitted, except with the prior approval of other shareholders.

Briscoe receives acceptances of more than 50% but less than 90%

If Briscoe receives acceptances for more than 50% but does not receive sufficient acceptances to take its shareholding in Kathmandu to 90% by the date on which the Briscoe Offer closes on 17 September 2015 (or as extended) and declares the Offer unconditional then all shares accepted into the Offer will be acquired. In these circumstances:

- Kathmandu will continue to be listed on the NZX and ASX with Briscoe as a majority shareholder with a shareholding greater than 50% but less than 90%. The following table sets out Briscoe's and Kathmandu's free float shares at different levels of Briscoe shareholding in Kathmandu:

Briscoe and Kathmandu Free Float at different Briscoe shareholding levels

	Briscoe shareholding			
	19.9% (current)	**50.1%**	**75%**	**100%**
Briscoe				
Total shares	217.2	250.9	278.9	306.8
(-) shares held by Duke	(166.6)	(166.6)	(166.6)	(166.6)
Free float shares	**50.5**	**84.2**	**112.2**	**140.2**
Duke shareholding %	76.7%	66.4%	59.8%	54.3%
Free float %	23.3%	33.6%	40.2%	45.7%
Kathmandu				
Total shares	201.5	201.5	201.5	201.5
(-) shares held by Briscoe	(40.1)	(100.8)	(151.1)	(201.5)
Free float shares	**161.4**	**100.7**	**50.4**	**-**
Free float %	80.1%	49.9%	25.0%	-

- the liquidity of Kathmandu shares is likely to be adversely affected. A cornerstone shareholding of greater than 50% but less than 90% would impact on the liquidity of Kathmandu shares. The closer Briscoe gets to a 90% shareholding, the lower the liquidity of Kathmandu shares will be and its attraction to institutional shareholders severely diminished;
- the liquidity of Briscoe will improve but at a 50.1% shareholding Rod Duke will hold approximately 66.4% of the enlarged Briscoe shares on issue;
- if Briscoe gains a shareholding of 75% or above it will be able to pass special resolutions such as those required to change the constitution or approve a major transaction. There are protections for minority shareholders provided in the Companies Act for changes made through Special Resolutions; and
- Briscoe will have effective control over the day-to-day operations of Kathmandu. Briscoe has stated in its offer documentation that it does not currently intend to make any material changes to the business activities, material assets or capital structure of Kathmandu if the Briscoe Offer is successful (although it also reserves the right to alter this intention). Briscoe will have the ability to determine such matters as dividend policy, capital expenditure and funding;
- Briscoe will have the ability to appoint new directors to the board of Kathmandu. Briscoe has stated that if it does not receive acceptances to the Offer that take its interest to 90% but that it still declares the offer unconditional (i.e. acceptances to take its interest to between 50% and 90%) then it may in due course seek

appropriate board representation on the Kathmandu board and may consider other changes to the Kathmandu board. By virtue of its majority shareholding, Briscoe would control the outcome of any ordinary resolution put to Kathmandu shareholders to change the board;

- Briscoe's ability to extract operational synergies, to the extent they exist, will be limited at less than 100% ownership;
- Briscoe is unable to allocate its shares to Kathmandu shareholders not resident in either New Zealand or Australia. For those Kathmandu shareholders who accept the Briscoe Offer, Briscoe will operate a nomination facility whereby Briscoe will allot the shares to a nominee. The nominee will sell the Briscoe shares "as soon as reasonably practicable" with payment to be paid no later than 17 September 2015, being the latest payment date under the Offer. As at 30 July 2015 Kathmandu had 640,000 shares held by shareholders outside of New Zealand and Australia, equivalent to approximately 360,000 shares based on the five-for-nine conversion ratio. If Briscoe were successful in reaching 100% ownership of Kathmandu, then the 360,000 shares to be sold would represent less than 0.3% of Briscoe's free float shares. This may result in some short-term downward pressure on the Briscoe share price as the nominee seeks to liquidate the shares; and
- if Briscoe declares the Offer unconditional at a level greater than 50% but less than 90% it will be permitted to "creep" towards the 90% threshold over time by buying a further 5% per annum commencing 12 months after the current offer closes. It does not however have to wait 12 months to make another partial or full offer after the current Offer closes on the same or different terms.

Briscoe is successful in reaching the 90% compulsory acquisition threshold

Briscoe has made an offer to acquire 100% of the Kathmandu shares on issue. The Briscoe Offer is conditional upon Briscoe receiving acceptances to take its total shareholding in Kathmandu to 90%, meaning that once the acceptance level of 90% (inclusive of the 19.9% it already owns) has been reached, the Offer will become unconditional as to acceptances. If Briscoe is successful in securing acceptances in respect of 90% of the issued shares in Kathmandu (including the 19.9% it already owns), it will have reached the compulsory acquisition threshold. At that threshold Briscoe can effect the compulsory acquisition provisions of the Takeovers Code to acquire the remaining shares. Also at that threshold, holders of any remaining shares can require Briscoe to acquire those shares at the Offer price. After compulsory acquisition, Kathmandu would be delisted from the NZX and would become a wholly owned subsidiary of Briscoe.

7.4 Factors that may affect the outcome of the Briscoe Offer

- There are a number of institutional shareholders of Kathmandu shares whose acceptance of the Offer is likely to be critical if the Offer is to succeed. Of these Goldman Sachs hold approximately 12.5%[20] and is the single largest shareholder of Kathmandu after Briscoe. Without Goldman Sachs acceptance Briscoe will not be able to move to compulsory acceptance.
- Briscoe already holds 19.9% of Kathmandu. To reach the 90% compulsory acquisition threshold, Briscoe would need acceptances in respect of a further 70.1% of the issued shares in Kathmandu, representing approximately 87% of the shares on issue not already owned or controlled by Briscoe. The decisions of minority shareholders as to whether to accept the Briscoe Offer in respect of the shares that they own will be influential on whether Briscoe achieves the 90% threshold or not;
- Since the announcement of the Briscoe Offer, Briscoe shares have traded in a range of NZ$2.70 to NZ$2.93 per share and Kathmandu shares have traded in a range of NZ$1.55 to NZ$1.80 per share;
- In some takeovers there are factors that suggest that even if an offer is below the assessed value range shareholders should consider accepting the offer. In this instance there does not appear to be any compelling reason for shareholders to accept a takeover offer that is below full underlying value;
- There are only two permissible variations to the Briscoe Offer:
  - Briscoe may choose to extend its Offer period. The Briscoe Offer is due to close on 17 September 2015. Under the rules of the Takeovers Code the latest date to which the Briscoe Offer may be extended is 90 days after the date on which the Offer opens, in this case 20 October 2015. However, if the offer is

[20] As outlined in the Briscoe Offer document dated 22 July 2015.

declared unconditional at any level above 50% acceptances, the Offer is able to be extended for a further 60 days under rule 24B of the Takeovers Code;

- Briscoe may choose to increase its Offer price. If Briscoe chooses to increase its Offer price while its current Offer is still open the increased price will be available to all Kathmandu shareholders even if they have already accepted the consideration under the Briscoe's Offer per share offer. Any increase in consideration if made by Briscoe, would not be made available to the institutional shareholders that sold to Briscoe immediately prior to the notice of intention being announced. Any increase will also not apply to accepting shareholders if Briscoe makes a further takeover offer at a higher price after the current Offer has closed, in which case the higher price would not be available to shareholders that accepted the current Briscoe Offer;

- In Grant Samuel's opinion it is possible that, depending on the reaction of Kathmandu shareholders to the current Briscoe Offer price, Briscoe may consider increasing its Offer price in order to secure a shareholding of more than 90% of the Kathmandu shares on issue. However, this is by no means certain;
- There is no need for shareholders to accept the Offer early. The closing date for the Offer is 17 September 2015. Not accepting the Briscoe Offer or holding out until near the time the Briscoe Offer closes may cause the Offer price to be increased. However there is no certainty that the Offer price will be increased. An offer must not be extended later than 14 days before the end of the offer period.
- Kathmandu shareholders who choose not to accept the Offer have either decided they want to retain their investment in Kathmandu for the longer term, or are expecting that Briscoe will make another offer at a higher price. There is no certainty regarding the ongoing performance of Kathmandu or that a subsequent offer from Briscoe will be forthcoming whether or not it is successful in acquiring 90% of Kathmandu or declaring its offer unconditional at any lower level of acceptances. The risks and benefits associated with an investment in Kathmandu are outlined at Section 7.7 below;
- Shareholders who believe Briscoe can do a better job of improving the performance of Kathmandu may choose to accept the Offer and share (albeit in a diluted form) in the potential rebound of Kathmandu;
- There are a number of taxation implications if the Briscoe Offer is successful. Kathmandu has imputation credits of approximately $1.8m. If the Briscoe shareholding exceeds 66% these will be forfeited. It would be possible to utilise the imputation credits by paying a dividend prior to the offer going unconditional. A condition of the Briscoe Offer is that there are no distributions. For Australian shareholders holding Kathmandu shares on capital account an acceptance of the offer (assuming a successful takeover) will constitute a Capital Gains Tax (**CGT**) event. A capital gain will arise of the Kathmandu Shareholder's capital proceeds exceed the cost base of their Kathmandu shares. A capital loss will arise if the Kathmandu shareholders capital proceeds are less than the reduced cost base of their Kathmandu shares. Scrip for scrip roll over relief may be available to Australian based Kathmandu shareholders only if Briscoe becomes the owner of 80% or more of the voting rights in Kathmandu. Scrip for scrip roll over relief rules are complex and require the tax payers to meet certain strict requirements. Kathmandu shareholders should seek professional advice regarding scrip for scrip roll over relief; and
- Sharemarket listings - Kathmandu is listed on both the NZX and the ASX, and included in NZX50 and ASX200 indices. Inclusion in these indices provides a greater level of liquidity. Briscoe is only listed on the NZX and has stated that it currently intends to seek a listing of the combined group on the ASX. It is possible, in time, that Briscoe could be included in the NZX50. This will depend upon the level of acceptance by Kathmandu shareholders and evidence of significantly improved liquidity in the shares of the combined group.

7.5 Likelihood of alternative offers

- The prospect of a takeover offer from Briscoe was announced to the market on the morning of 30 June 2015. The notice of intention to make a takeover offer was issued the following day. Since that time, and given its high profile in the investment community and consumer markets alike, the takeover offer and its prospects of success have received considerable press analysis and commentary. To date, no alternative takeover offers have been forthcoming and no company that competes with Briscoe has emerged as the holder of a substantial shareholding (5% or greater) in Kathmandu. No other party has made a bid for Kathmandu. This is in part due to the 19.9% shareholding acquired by Briscoe prior to announcing its intention to make a bid. There is nothing to stop another bid at a higher price;

- For an alternative full takeover of Kathmandu to be successful, Briscoe would need to agree to sell its 19.9% shareholding into the alternative offer;
- If Briscoe declares its Offer unconditional at a shareholding of more than 50% but less than 90%, the likelihood of a takeover offer from another party is substantially reduced. If at the conclusion of the Briscoe takeover offer Briscoe owns a controlling shareholding in Kathmandu, the chances of any other competing partial takeover offers are slim. Any alternative partial offer for over 20% of Kathmandu (should one be forthcoming) would require the approval of Kathmandu shareholders, which would therefore require the support of Briscoe. Any subsequent takeover offer for 100% of Kathmandu would require Briscoe to sell its shareholding in Kathmandu to the new offeror for an alternative full takeover offer to be successful; and
- There will be a time period between when the Offer is made and the dispatch of the Target Company Statement. Kathmandu has advised shareholders to not take any action until with they receive the Target Company Statement which is normal practice in similar circumstances. Briscoe has indicated that the Offer will close on 17 September 2015 although it can extend the period. There is no need for Kathmandu shareholders to accept the Offer immediately when it is received. Shareholders can withdraw their acceptance if they complete a facility acceptance form. Accepting shareholders will receive any higher price subsequently offered by Briscoe under the current Offer.

7.6 Other Advantages, Disadvantages and Risks

If the Briscoe Offer is successful accepting Kathmandu shareholders will receive Briscoe shares as part consideration and for Kathmandu shares and a small amount of cash. In doing so, Kathmandu shareholders will:

- realise their investment in Kathmandu at a value that is below Grant Samuel's assessed value, but the actual value received will only be determined when the Briscoe shares are issued. Some shareholders may not want to hold Briscoe shares and would have preferred to crystallise their investment in Briscoe in all cash. There is no certainty that they will be able to realise the scrip received for an amount equivalent to the value attributed to the consideration (e.g. due to transaction costs and the risks associated with any stock market investment);
- incur no transaction costs (i.e. brokerage) to acquire Briscoe shares; and
- the value of the segment share component of the consideration will vary with the movements in the Briscoe share price. Accordingly, until the shares are issued under the Briscoe Offer, Kathmandu shareholders that accept the Briscoe Offer are exposed to movements in the Briscoe share price. The actual value received could ultimately exceed, or be less than, the assessed range of NZ$1.73 - $1.84 per Kathmandu share.

The decision to hold Briscoe shares is a decision independent of a decision to accept the Briscoe Offer. However, if Briscoe shares are retained, Kathmandu shareholders will:

- retain economic interest in the Kathmandu assets, albeit on a diluted basis. The eventual interest Kathmandu shareholders have in Briscoe will depend on the ownership level outcome under the Briscoe Offer;
- gain exposure to Briscoe, a successful homeware and sporting goods retailer;
- be entitled to Briscoe distributions on a pari passu basis with Briscoe shareholders; and
- be exposed to integration risk and synergies. There may be unanticipated issues or costs that arise on integration.

7.7 An investment in Kathmandu

As with any equity investment there are risks associated with the market in which the company operates. The risks associated with an investment in Kathmandu include:

- ***Foreign Currency.*** Kathmandu operates in New Zealand, Australia and the UK, and purchases predominately in USD. As a consequence the business is always exposed to relative movement in foreign exchange rates;
- ***Retail Sector Outlook.*** The outlook for the retail sector in Australian and New Zealand is currently mixed. A number of high profile retailers in each country have either recently failed or have suffered a significant financial downturn. While some of this is due to their operating model of those particular businesses, it does highlight the tough market condition. Kathmandu's poor performance in the first half of FY15 is a stark example of how quickly fortunes can change; and

- ***New Management.*** Kathmandu has a new CEO and a number of senior executives have left the business in the last 12 months. It will take a period of time for the new management to settle in.

The benefits and opportunities associated with an investment in Kathmandu include:

- ***Cost Savings Implemented.*** The cost saving initiatives have commenced and the business will start benefiting from these in FY16;
- ***Growth Opportunities.*** Kathmandu has identified opportunities to grow and leverage its Summit Club and the online offering both domestically and internationally. The company has the ability to selectively pursue offshore expansion opportunities; and
- ***Sector Growth.*** The recreational goods and apparel sector has been growing in Australia and New Zealand. Kathmandu is well positioned to continue to capitalise on this growth if it continues.

Kathmandu management and board are forecasting significantly improved earnings in FY16F. Their view is that FY15 was a one off and the factors that caused the lower level of earnings are not likely to be repeated.

7.8 Acceptance or Rejection of the Briscoe Offer

Acceptance or rejection of the Briscoe Offer is a matter for individual shareholders based on their own view as to value and future market conditions, risk profile, liquidity preference, portfolio strategy, tax position and other factors. In particular, taxation consequences will vary widely across shareholders. Shareholders will need to consider these consequences and, if appropriate, consult their own professional adviser(s).

GRANT SAMUEL & ASSOCIATES LIMITED
31 July 2015

Grant Samuel + Associates

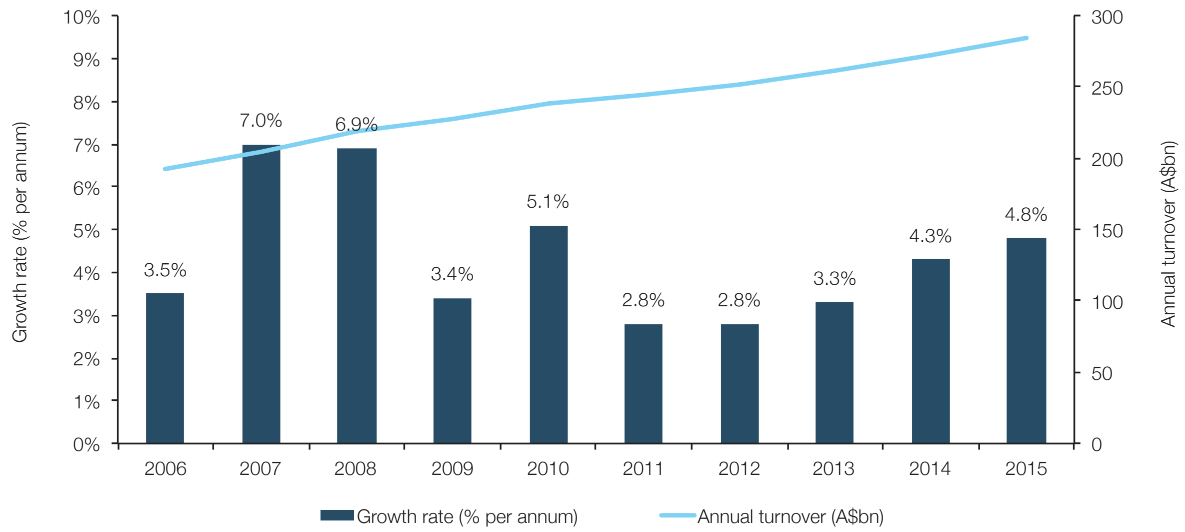
Appendix A - Overview of the Australasian Retail Industry

1. Australian Retail Sector

Overview

The Australian retail industry comprises food retailing (including liquor), household goods retailing, cafes, restaurants and takeaway food services, clothing, footwear and personal accessory retailing, department stores and other retailers (e.g. retailers of pharmaceuticals and cosmetics, recreational goods, newspapers and books). The industry generated turnover of A$285 billion in the 12 months to 31 May 2015.[21] Aggregate growth in the sector has been subdued since the onset of the global financial crisis in late 2007, with the growth rate in recent years averaging approximately 3.5% p.a:

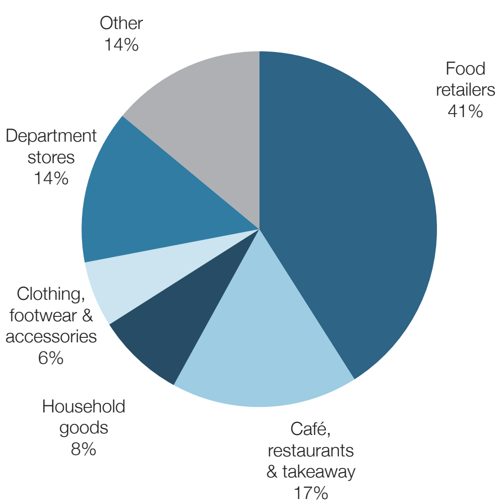
Australian Retail Industry Turnover - 10 years to 30 May 2015 (A$ billion and % growth)



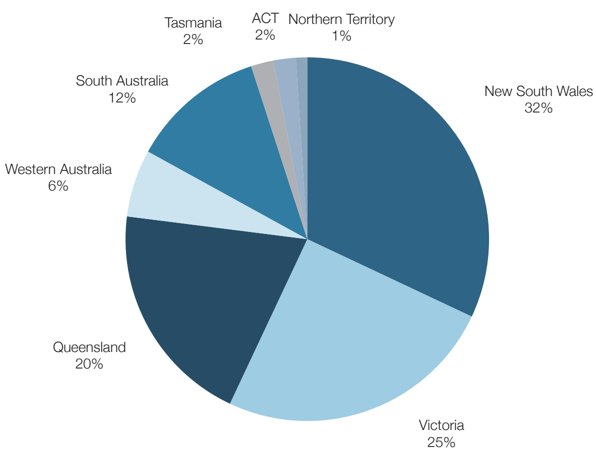
Food (specifically food retailers and cafes, restaurants and takeaway food services) represents the largest sector of the Australian retail industry accounting for 41% of turnover and New South Wales and Victoria together contribute 57% of industry turnover.[22]

Australian Retail Industry Turnover - 10 years to 30 May 2015

By Sector



By State



[21] Australian Bureau of Statistics

[22] Australian Bureau of Statistics

Key Drivers

The key factors driving the performance of the retail industry include changes to the level of disposable income (which is an indication of households' ability to spend), household wealth, consumer confidence and broader economic factors. An overview of each of these factors is outlined below:

- ***Disposable income.*** Demand for retail goods is directly affected by the level and change of disposable income. Disposable income is driven by:
  - *population and employment growth*: population growth in Australia over the past decade has averaged approximately 1.6% per annum while the labour market has grown at a higher rate (approximately 2.0% per annum) as a result of increased labour participation. Australia's unemployment rate remained relatively steady at approximately 6.0%.[23] Nevertheless, employment growth is expected to remain subdued over the medium term in part as a consequence of a contracting resources sector, State and Federal government cutbacks and expected continued caution within the business community;
  - *real wages growth:* real wages are estimated to have declined by 0.4% in the year ended 31 March 2015[24] and are expected to remain relatively flat over the next two years if the soft labour market continues;
  - *interest payments:* benchmark interest rates are at cyclical lows resulting in lower mortgage payments and a lower cost of other debt which may contribute to increased retail spending; and
  - *taxation and social security:* increased taxes in the May 15 budget will in due course contribute to lower disposable income and potentially have a negative impact on consumer confidence.
- ***Household Wealth.*** Low interest rates (on the back of cuts to the OCR by the Australian Reserve Bank in February and May of this year) have boosted house and share prices over the past two years, contributing to an increase in household wealth which, combined with a period of prudent financial management, has led to an improvement in household debt to asset ratios and asset to disposable income ratios increasing (although household debt ratios have deteriorated more recently). Ultimately, this trend, if continued, should lead to an uplift in household spending.
- ***Consumer Confidence.*** Consumer confidence has dipped in the twelve months to July 2015, in part a reaction to recent falls in the Australian dollar and the impact this is expected to have on the cost of imported goods. As at 1 July 2015, the Consumer Confidence Index was at 95.3, indicating that consumers have an overall pessimistic outlook for the economy in general. However, indices of consumer confidence can be misleading and can vary materially between socio-economic groups resulting in different spending trends in the premium, mid and value retail segments.
- ***Macro-economic Factors.*** The global economy is gradually showing evidence of improvement (albeit inconsistently). The situation in the United States and the United Kingdom is slowly improving although the impact of the recent Greek financial crisis is yet to be quantified and therefore there are still concerns about the impact this will have in Europe and potentially the flow on effect to the rest of the world. A more direct concern for Australia is the slowing of China's economy. A slower Chinese growth rate will place pressure on the Australian economy as it relies heavily on China as its major commodity export market.

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[23] Australian Bureau of Statistics, May 2015.

[24] Australian Bureau of Statistics

Australian Retail Clothing Industry

The Australian retail clothing industry is made up of products and services incorporating women's, men's and children's clothing, and accessories. Consistent with the wider retail industry in Australia, the clothing retail industry has faced several tough years as a result of high retail operating costs and lower than expected revenue and profit margins.

The Australian clothing retail industry is characterised by a relatively low level of market share concentration with the top four national clothing retailers accounting for approximately 20% of revenue in 2014-2015. These include Premier Investment Limited (6.3%), Country Road Limited (5.4%), Specialty Fashion Group Limited (4.9%) and ARJ Group Holdings Pty Ltd (4.0%). The balance of the market is comprised of a high number of small independent retailers with nearly half of all retailers generating revenue of between A$0.2 - 2.0m per annum.

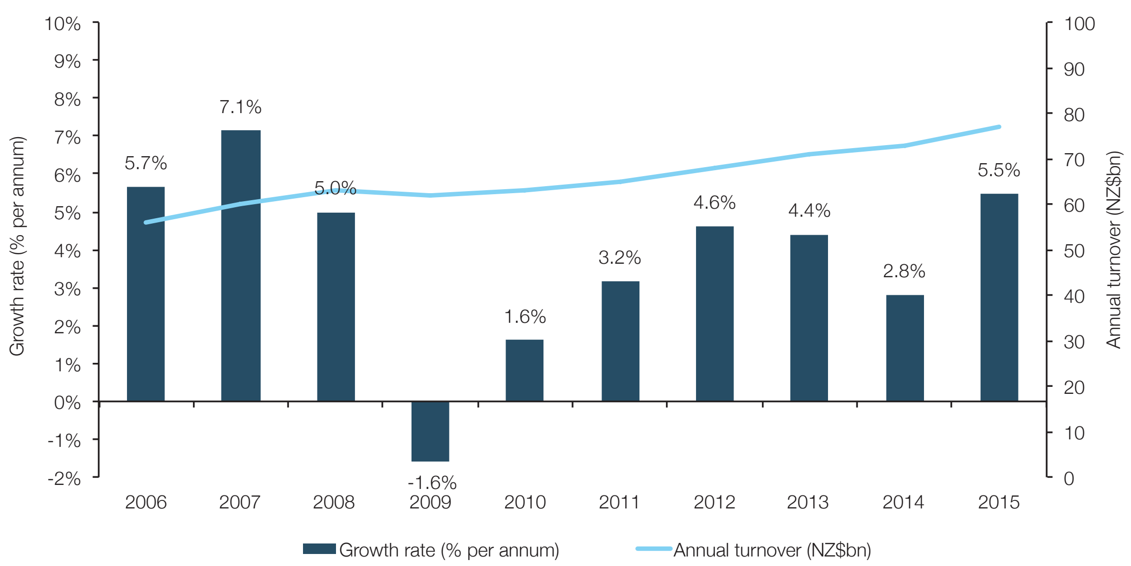
The geographic spread of the sector is heavily concentrated with the densely populated cities of Sydney, Melbourne and Brisbane accounting for approximately 82.3% of retail outlets. New South Wales and Victoria account for a greater proportion of establishments than their population base would indicate due to higher average incomes.

2. New Zealand Retail Sector

Overview

The New Zealand retail industry comprises supermarket and grocery stores, motor vehicle and parts, fuel, food and beverage services, clothing, footwear and accessories, hardware and building supplies, department stores and other retailers (e.g. pharmaceuticals, recreational goods, accommodation and electrical goods). The industry generated turnover of approximately NZ$76 billion in the 12 months to 31 March 2015.[25] Growth took a sharp hit following the advent of the GFC in 2008, and has since slowly trended upwards. The growth rate of 5.5% in 2015 exceeded the 2008 growth rate for the first time:

New Zealand Retail Industry Turnover - 10 years to 31 March 2015

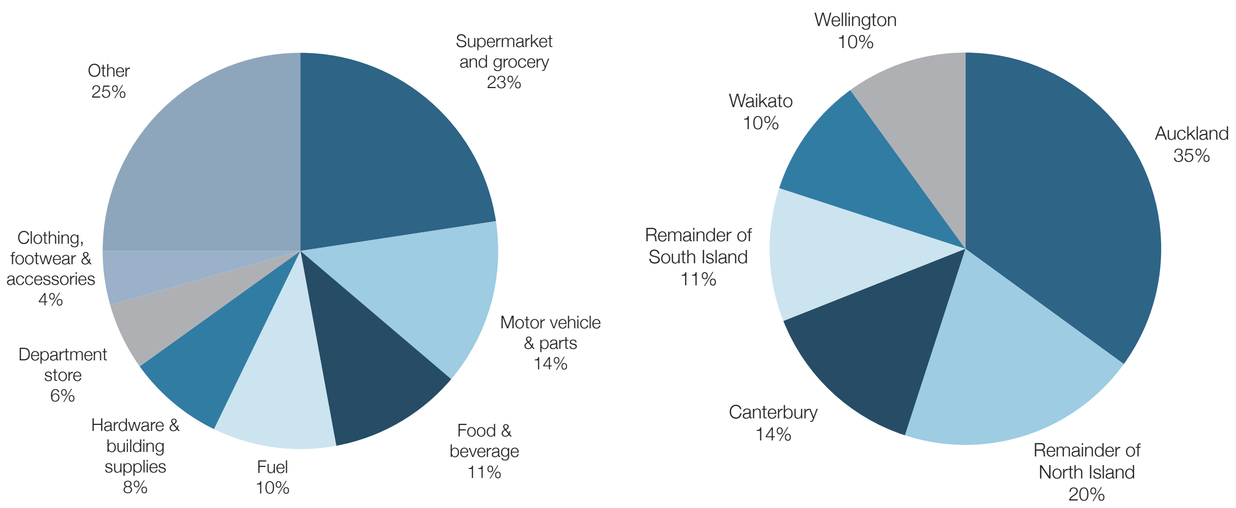


[25] Statistics New Zealand

Supermarket and grocery stores represent the largest single sector of the New Zealand retail industry (accounting for 23% of turnover), followed by the motor vehicle and parts sector (accounting for 14% of turnover). Auckland represents the largest retail area by region.[26]

New Zealand Retail Industry Turnover - as at 31 March 2015

By Sector | **By Region**



Key Drivers

- ***Disposable income:***
  - *population and employment growth*: New Zealand's population is expected to continue growing considerably with net migration reaching a record high in March 2015. Labour productivity remained flat in 2014 however productivity is expected to pick up again to around 2.0% in 2015 and 2016. New Zealand's unemployment has been at around 5.8%[27] over the past year and is forecast to reduce in the coming years;
  - *real wages growth*: low inflation and further increases in labour supply are expected to lead to subdued nominal wage growth over the coming year. Over time, wage growth is forecast to strengthen as employment growth continues and the unemployment rate falls;
  - *interest payments*: interest rates have fallen in the past six months largely due to lower than expected inflation. The Reserve Bank has indicated that interest rates are expected to remain lower for longer than anticipated; and
  - *taxation*: New Zealand's tax revenue amounts to approximately 33% of GDP, placing it just below the OECD average of 34.5%. New Zealand's ratio of revenue to GDP has increased in recent years mainly reflecting New Zealand's slow recovery since the global financial crisis. Tax revenue is expected to continue to rise in the coming years.
- ***Household Wealth.*** The combination of low interest rates (the New Zealand Reserve Bank cut the OCR to 3.25% in June 2015), increased house prices (especially in Auckland) and record low levels of inflation means that, in real terms, New Zealand household purchasing power has increased in recent years and is expected to continue to do so in the short term.
- ***Consumer Confidence.*** The Consumer Confidence Index in New Zealand dropped to 113 in the second quarter of 2015 from 117.40 in the first quarter of 2015. However, levels are still higher than that seen in 2011/2012.
- ***Macro-economic Factors.*** New Zealand has experienced a period of strong economic performance over the past two years. However, New Zealand's economy faces growing uncertainty and is showing signs of weakening caused in part from the slow down in China, the fall in international dairy prices and the uncertainty

[26] Statistics New Zealand

[27] New Zealand Treasury

caused by the Greek financial crisis. However, oil prices remain low and the New Zealand dollar has eased from its recent highs, providing a more positive outlook for exporters.

New Zealand Retail Clothing Industry

The retail clothing industry grew modestly over the three years to March 2012 but declined in the two years to March 2014, representing turnover of just over NZ$3.3 billion. Turnover has grown marginally in 2015.

Although there are a number of small players within the clothing retail sector in New Zealand, as would be expected the geographic spread of the sector is concentrated within New Zealand's main regions, with Auckland, Wellington and Christchurch accounting for approximately 57% of industry establishments. More significantly, Auckland accounts for almost 36% of outlets.

Online Shopping in New Zealand

New Zealanders have embraced Internet shopping with 1.9m consumers now purchasing online, making up approximately 50% of the country's total population. The number of purchases made per person is increasing rapidly. Nearly half a million New Zealanders each made 11 or more purchases on the internet last year, an increase of 58% in the last two years. This is reflected by the $3.8 billion spent online in 2013, $4.15 billion in 2014 and continued expected growth in 2015.[28]

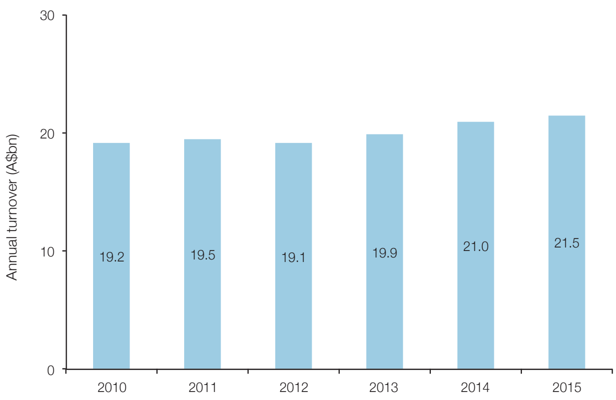
3. Travel and Adventure Retail Industry

Overview

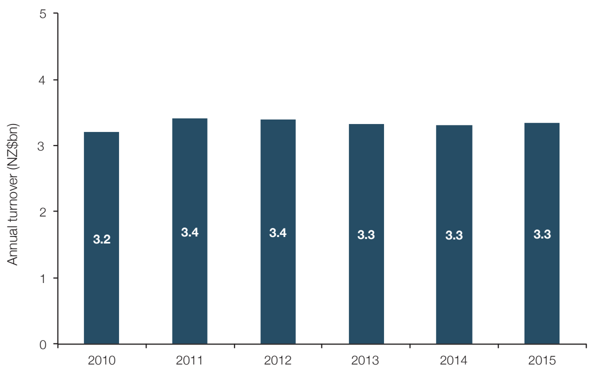
Kathmandu operates within two broad retailing categories: apparel retailing (clothing, footwear and accessories) and recreational goods retailing (sport and camping equipment, media, toys and games). The sizes of the Australian apparel retail and recreational goods retailing categories for the year ended 31 March 2015 were approximately A$21.5 billion and A$5.3 billion respectively.[29] The size of the New Zealand apparel and recreational goods categories for the year ended 31 March 2015 were approximately NZ$3.3 billion and NZ$2.2 billion respectively.[30]

Australasian Apparel Retailing Sector Turnover - year ended March

Australian Apparel Retailing



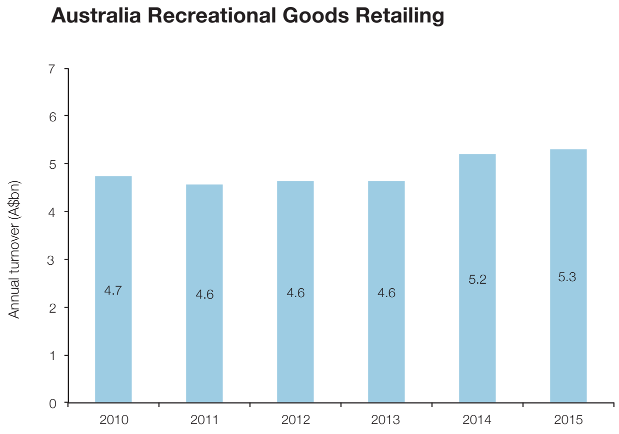
New Zealand Apparel Retailing

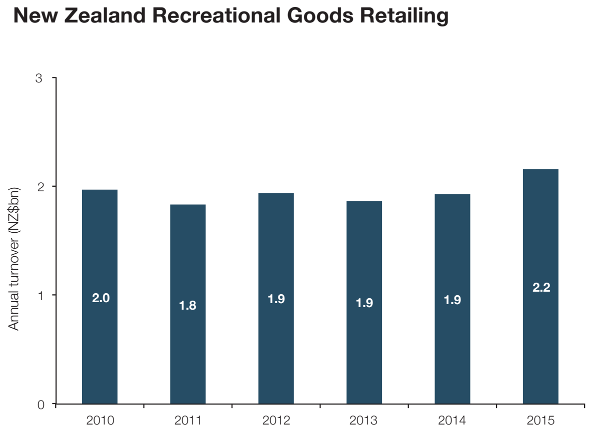


[28] Neilson report

[29] Australian Bureau of Statistics

[30] Statistics New Zealand





The following points are relevant when reviewing the charts above:

- apparel retailing in Australia has shown three years of consistent but moderate growth. On the other hand, apparel retailing in New Zealand has remained relatively flat during this same period;
- recreational goods retailing has enjoyed two years of good growth within Australia; and
- turnover in the recreational goods retailing sector for New Zealand has fluctuated, but 2015 provided the sector's best performance over the last six years.

4. Challenges to the Retail Industry and the Response

In addition to being affected by generally soft retail conditions, the clothing retail sector in Australasia has been impacted by two recent structural changes:

- ***Growth in online retail.*** During the past ten years, and particularly the last five years, there has been a dramatic rise in the level of online shopping by Australian and New Zealand consumers. The main drivers of the growth in the online retail segment include:
  - the convenience of online shopping;
  - increasing awareness of price differentials between the overseas retailers and bricks and mortar retailers selling the same products. A recent survey showed that 65% of online shoppers used the internet to compare prices online;
  - a wider range of brands and products;
  - better accessibility and improving shipping logistics with more offshore retailers offering direct and fast shipping; and
  - increasing levels of comfort with online purchasing issues such as payment/credit card security and returns (e.g. for sizing issues).

  Many clothing retailers in Australia and New Zealand appear to have been relatively slow to adopt online retail strategies and are therefore playing catch-up with companies that have sophisticated websites and online retail capabilities. The overall result of this change in mind-set has created challenges for traditional bricks and mortar retailers that were previously well protected from offshore competition.
- ***Emergence of International Competition.*** The arrival of international fashion giants such as *Zara*, *Gap* in Australia and *TopShop* in Australia and New Zealand is will take some sales from domestic clothing retailers. The recent openings of *H&M* and *Uniqlo* in Australia and the impending arrival of other international retailers is expected to intensify competition. These chains can typically offer products at very competitive prices as a result of their larger supply chains and buying power. For example, *Zara* is known for being able to reproduce and stock catwalk designs in very short timetables.

Response to these Challenges

Because of this change in the retail landscape, retailers in Australia and New Zealand are implementing a number of measures to remain competitive and improve profitability:

- ***lower prices*.** Retailers are lowering the price range of their products to compete with overseas retailers. Retailers have been trying to share the impact of these price reductions with their suppliers in an attempt to preserve gross margins;
- ***private brands.*** Products sold under the retailers' own brand(s) typically generate higher margins than products sold under third party brands.
- ***better customer experience:***
  - bricks and mortar retailers are now seeking to differentiate themselves through better customer service (e.g. through increased rewards for loyal shoppers, more targeted offers and a better overall shopping experience);
  - retailers are recognising the increasing importance of being able to engage with customers through multiple channels, such as physical stores, online stores and social media; and
  - the implementation of integrated information management systems to efficiently gather customer data across all customer contact points and leverage this data to enhance the shopping experience; and
- ***supply chain/sourcing*.** Buying goods directly from the manufacturers (including from low cost manufacturing countries) simplifies the supply chain, reducing costs and allowing retailers to better control stock levels. Furthermore, larger players are focusing on supply chain speed to reduce lead times and maintain product availability.

Appendix B – Recent Transaction Evidence

A brief description of each of the transactions listed in Section 4 is outlined below:

Accent Group / RCG Corporation

On 19 March 2015 RCG Corporation Limited (**RCG**) entered into an agreement to acquire Accent Group Limited (**AGL**) for approximately A$200m. AGL is an importer, distributor and retailer of international branded footwear and related accessories with operations across Australia and New Zealand. RCG is engaged in the footwear retail business in Australia and New Zealand. The purchase price was based on 6.0 times AGL's normalised maintainable EBITDA for the financial year ending 30 April 2015. AGL generated revenue for the year ended 31 December 2014 of A$181.4 million, EBITDA of A$26.5m and EBIT of A$22.4m. Normalised maintainable EBITDA of A$33.1m was adopted to calculate the purchase price.

Pacific Brands Workwear Group / Wesfarmers Industrial & Safety

On 26 August 2014 Wesfarmers Industrial and Safety Pty Ltd (**Wesfarmers**) entered into an agreement to acquire Pacific Brands Limited's Workwear Group for A$180 million. The Pacific Brands Workwear Group designs, sources, manufactures and distributes industrial work wear, corporate wear, uniforms and defence emergency services work wear to customers across Australia, New Zealand, the UK and the UAE. For the financial year ended 30 June 2014 the business generated sales of A$386.5 million and EBIT of A$22.1 million. The purchase price therefore represented a multiple of 8.1 times historical EBIT.

City Farmers Retail / Greencross

On 16 June 2014, Greencross Limited (**Greencross**) agreed to acquire City Farmers Holding Pty Ltd (**City Farmers**) from Quadrant Private Equity and other shareholders for approximately A$205 million in cash and stock. City Farmers operates pet, garden and pool supply stores in Australia. At the date of the acquisition City Farmers had 42 stores and the business was forecast to generate annualised revenue of approximately A$120 million and annualised EBITDA of approximately A$24 million (including expected synergies). The purchase price therefore represented a multiple of 8.5 times forecast EBITDA (including expected synergies).

Retail Zoo / Bain Capital

On 8 May 2014 Bain Capital singed an agreement to acquire a 70% stake in The Retail Zoo Pty Ltd (**Retail Zoo**) from The Riverside Company for approximately A$190 million. Retail Zoo owns, operates and franchises restaurants and fast food stores in Australia, Malaysia, South Africa, the UK and Chile. Retail Zoo had revenues of A$221 million and EBITDA of A$17.6 million in 2013. The founders of Retail Zoo retained a 30% shareholding in the business. Bain Capital and The Riverside Company are both private equity firms. Retail Zoo was forecast to generate sales of A$260 million in the financial year to June 2014. Retail Zoo had reported double digit EBITDA growth rate in the five years prior to the sale to Bain Capital. The forecast EBITDA multiple was reported in an industry publication at 10.3 times.

R.M. Williams / L Capital Asia

On 13 April 2013, L Capital Asia (**L Capital**) agreed to acquire a 49.9% stake in R.M. Williams Holdings Pty Ltd (**R.M. Williams**) from Ken Cowley for A$50 million. L Capital was granted an option to acquire the remaining 50.1% shareholding over a certain time frame. R.M. Williams designs, manufactures and markets footwear, clothing and leather accessories. At the date of the acquisition R.M. Williams has 63 retail stores across Australia, the USA and UK. L Capital Asia is a private equity firm specialty in growth capital and emerging market investments supported by LVMH Moet Hennessy- Louis Vuitton. The historical EBTIDA multiple was reported in an industry publication at 12.4 times. In October 2014 L Capital agreed to acquire the remaining 50.1% shareholding for A$50 million. Revenue was reported to have grown to A$128.2 million (from A$112 million in 2013).

Exego Group / Genuine Parts Company

In March 2013, Genuine Parts Company (**Genuine Parts**) agreed to acquire the remaining 70% shareholding in Exego Group Limited (**Exego Group**) from Unitas Capital for approximately US$810 million. Exego Group supplies automotive products through a network of stores in Australia and New Zealand under the Repco brand name. Genuine Parts distributes automotive and industrial replacement parts, office products and electronic products primarily in North America and Central America.

DaKine / Altamont Partners

On 16 July 2013 Altamont Capital Partners agreed to acquire Da Kine Hawaii Inc. (**DaKine**) from Billabong International Limited for A$70 million. DaKine sells backpacks, luggage bags, gloves and outwear. Altamont is a private equity firm specialising in turnaround investments. The historical EBITDA multiple was reported at 7.0 times.

Torpedo 7 / The Warehouse Group

On 4 March 2013 The Warehouse Group Limited (**The Warehouse**) signed an agreement to acquire a 51% stake in Torpedo 7 Limited (Torpedo 7) for NZ$33 million. The consideration was paid as NZ$20 million on settlement and NZ$13 million over three years if certain performance related targets are met. Torpedo 7 is an online retailer in New Zealand. Torpedo 7 reported sales of NZ$70 million and EBIT within the range of NZ$4 - 5 million in 2012. The acquisition of Torpedo 7 was part of The Warehouse's strategy of becoming a leading multi-channel retailer. The acquisition price represented on EBIT multiple of 12.9 -16.2 times EBIT including the earnout component and 7.8 to 9.8 times EBIT excluding the earnout component.

Noel Leeming / The Warehouse Group

On 10 December 2012, The Warehouse acquired Noel Leeming Group Limited (**Noel Leeming**) from Gresham Private Equity for NZ$65 million. Noel Leeming operates a chain of consumer electronics and appliance stores in New Zealand. For the year ended 31 March 2012 Noel Leeming reported revenues of NZ$607.8 million and EBIT of NZ$10.6 million. Noel Leeming operates as a separate trading division of The Warehouse Group with its own retail brand positioning.

Witchery / Country Road

On 31 July 2012 Country Road Limited (**Country Road**) agreed to acquire Witchery Australia Holdings Pty Ltd (Witchery) from Gresham Private Equity and management for approximately A$170 million. Witchery has 306 stores in Australasia under the 'Witchery' and 'Mimco' brand names. Witchery's normalised EBITDA is expected to be substantially in line with FY11 normalised EBITDA of A$34 million. Witchery's turnover was A$266 million in FY11. At the date of the acquisition Country Road had 211 stores, sales of A$413 million and EBITDA of A$39 million. The acquisition price represents a multiple of 5.0 times normalised EBITDA.

Rebel Sport / Super Retail Group

On 17 October 2011 Super Retail Group Limited (**Super Retail Group**) signed an agreement to acquire Rebel Sport Group Limited (**Rebel**) from Archer Capital for A$610 million in cash. Rebel is a leading sports goods retailer in Australia with an estimated market share of 24%. Rebel generated revenues of A$603 million and EBITDA of $A77 million of the year ended 30 June 2011, and EBIT of A$66 million. This implies EBITDA and EBIT multiples of 8.1 times and 9.4 times respectively.

Retail Apparel Group / Navis Capital Partners

On 18 March 2011 Narris Capital Partners agreed to acquire Retail Apparel Group Pty Ltd (**Retail Apparel Group**) from Champ Ventures for A$200 million. Retail Apparel Group retails men's apparel in Australia through Tarocash stores. Narris Capital Partners is a private equity firm specialising in buyout investments. It was reported that the acquisition price represented a multiple of 8.0 times the historical EBIT.

Ray's Outdoors / Super Retail Group

On 27 April 2010 Super Cheap Auto Group Limited (**Super Retail Group**) entered into an agreement to acquire Ray's Outdoors for A$54 million in cash and stock. Ray's Outdoors operates as an outdoor entertainment and camping retailer in Australia with a network of 38 stores across five states (at the date of the acquisition). The purchase price represented a multiple 7.2 times FY11 EBIT. Super Retail Group operates as a retailer of automotive, leisure and sports products in New Zealand and Australia.

Lorna Jane / Champ Ventures

On 22 March 2010 Champ Ventures acquired a 40% shareholding in Lorna Jane Pty Ltd (**Lorna Jane**). Lorna Jane provides sports apparel for women. The company provides its products through its stores in Australia and internationally. Champ Ventures is a venture capital fund of CHAMP Private Equity. It was reported that the implied enterprise value was A$70 million representing a multiple of 7.0 times historical EBTIDA.

Just Group / Premier Investments

On 31 March 2008 Premier Investments Limited (**Premier Investments**) made a tender offer to acquire Just Group Limited (Just Group) for A$820.4 million. Premier Investments completed the acquisition on 3 September 2008. Just Group operates as a fashion and apparel retailer in Australia, New Zealand, South Africa and Singapore. Premier Investments operates various specialty retail fashion chains primarily in Australia and New Zealand.

Colorado Group / Affinity Equity Partners

On 18 July 2006 Affinity Equity Partners made an offer to acquire the remaining 81.57% stake in Colorado Group Limited (**Colorado**) for consideration of A$351.1 million. Affinity Equity Partners subsequently revised its offer to A$4.70 per share (from A$4.50 per share). Affinity Equity Partners acquired an addition 65.02% stake for A$292.2 million. Colorado retails footwear, apparel and accessories in Australia.

Repco Corporation / CCMP Capital

In December 2006, private equity fund, CCMP Capital Asia (**Unitas Capital**), made a tender offer to acquire Repco Corporation Limited (**Repco**) for approximately A$340 million in cash. Repco supplies automotive products through a network of stores in Australia and New Zealand under the Repco brand name. Repco was subsequently sold to Genuine Parts Company in 2013 as part of the Exego Group.

Rebel Sport / Archer Capital

On November 2006 Archer Capital made an offer to acquire Rebel Sports Limited (**Rebel**) from Harvey Norman and other shareholders from approximately A$370 million. The agreement was signed on 20 December 2006 and the transaction was approved on 19 March 2007. Rebel operates a chain of sport and leisure equipment stores in Australia and New Zealand. At the date of the acquisition Rebel had 73 stores. The acquisition price represented a multiple of 7.3 times forecast EBITDA and 9.7 times forecast EBIT.

Appendix C – Comparable Listed Companies

A brief description of each of the companies listed in Section 4 is outlined below:

Dick Smith

Dick Smith Holdings Limited (**Dick Smith**) is one of the largest retailers of consumer electronics in each country with 329 and 61 stores in Australia and New Zealand respectively. Dick Smith operates an omni-channel platform consisting of the physical stores, online shops, mobile shops (including mobile apps and click-and-collect). Dick Smith offers a broad spectrum of consumer electronics brands across computers, mobility, accessories and entertainment and it offers a range of products under its private label brands. Dick Smith is trading at a slight discount to its peer group, largely due to the competitive market it operates in, growth prospects in New Zealand and lower EBITDA margins relative to other retail segments

Hallenstein Glasson

Hallenstein Glasson Holdings Limited (**Hallenstein Glasson**) is a apparel retailer with over 110 stores in New Zealand and 25 stores in Australia. Its geographic revenue composition reflects the store numbers with circa 81% of revenue being generated in New Zealand. Hallenstein Glasson's financial performance in the first half of the 2015 financial year improved from the same period in the prior financial year, largely due to strong growth from the Hallenstein's stores, which management attributed to improved product and branding proposition resulting in improved margins.

Harvey Norman

Harvey Norman Holding Limited (**Harvey Norman**) is a franchisor that grants franchises to independent business operators that retail products for the home and office in the following categories including electrical, computers and communications, appliances, furniture, bedding and manchester, home improvements, lighting, carpet and flooring. There are Harvey Norman stores in Australia, New Zealand, Slovenia, Ireland, Singapore and Malaysia. Harvey Norman's retail property portfolio is worth over A$1.9 billion.

JB Hi-Fi

JB Hi-Fi Limited (**JB Hi-Fi**) is a specialty discount retailer of consumer electronic and home entertainment products in Australia and New Zealand. Key product categories include flat panels/TVs, computers/tablets, audio, games, music, and DVDs. JB Hi-Fi also sells a broader range including whitegoods, cooking and small appliances. In FY14, Australia generated 95% of sales. JB Hi-Fi's recent profit guidance indicated that the business is trading well with strong like for like sales and FY15 is expected to deliver EBITDA growth of circa 3% on a 6% increase in revenue.

Michael Hill

Michael Hill International Limited (**Michael Hill**) is a jewellery manufacturer and retailer in New Zealand (52 stores), Australia (172 stores), Canada (57 stores) and United States (8 stores). From FY11 to FY14, Michael Hill delivered consistent revenue and EBITDA growth primarily through its expansion throughout Australia and Canada and by generating same stores growth in New Zealand. Michael Hill has not progressed its expansion into the United States since FY10 and despite recent improvements in same store growth, the company continues to make an operating loss from the 8 stores located in in the United States.

Myer

Myer Holdings Limited (**Myer**) is Australia's largest department store group generating total sales of over A$3.1 billion in FY14. Myer has 67 stores in prime retail locations across Australia that is complemented by online, digital and mobile platforms. Myer offers products across 11 categories including: womenswear; menswear; childrenswear; intimate apparel; beauty, fragrance and cosmetics; homewares; electrical goods; toys; footwear, handbags and accessories; and general merchandise. Myer's product offering includes an extensive range of well known brands and includes its own private label brands. Myer is trading at a discount to its peer group due to its financial performance over the last five years, which has seen EBITDA decline by approximately A$100 million (from FY11 to FY15F).

Premier Investments

Premier Investments Limited (**Premier Investments**) operates various specialty retail fashion chains primarily in Australia and New Zealand. It offers casual wear, women's wear, and non-apparel products. The company has a portfolio of retail brands consisting of '*Just Jeans', 'Jay Jays', 'Jacqui E', 'Portmans', 'Dotti', 'Peter Alexander'* and *'Smiggle'*. Premier Investments also has a 25.7% interest in Breville Group, which provides and distributes electrical appliances in the consumer products industry. Premier Investments is trading at a premium to its peer group in Australasia, largely due to the strength of its operating performance and growth potential through its Peter Alexander and Smiggle brands.

RCG

RCG Corporation Limited (**RCG**) owns and operates a number of footwear businesses in the performance, comfort and active lifestyle sectors. These include retailers, '*The Athlete's Foot'* and '*Podium Sports'* and the wholesale and distribution of '*Merrell', 'Saucony', 'Cushe', 'Chaco', 'CAT'* (Caterpillar) and *'Sperry Top-Sider'* brands of footwear and apparel. In March 2015, RCG acquired Accent Footwear for A$200 million. Accent Footwear is also the owner of '*Platypus Shoes'* and is a distributor and retailer of seven international brands including *'Vans', 'S'kechers', 'Dr Martens'* and *'Timberland'*. As a combined entity, for the 12 months to 31 December 2014 EBITDA would have increased approximately 150% from A$17.6 million to A$44.1 million if the transaction had taken place on 1 January 2014.

Super Retail

Super Retail Group Limited (**Super Retail**) is one of Australasia's Top 10 retailers specialising in automotive, leisure, and sports products in Australia and New Zealand. The company offers its products primarily under the '*Amart Sports*', '*Boating Camping Fishing*' (***BCF***), '*Fishing Camping Outdoors*' (***FCO***), '*Goldcross Cycles*', '*Ray's Outdoors*', '*Rebel*' and '*Supercheap Auto*' retail brands. It operates more than 600 stores across Australia and New Zealand. During FY15, Super Group announced that due to under performance it was restructuring the business by revamping the leisure division. The restructure included the closing of *FCO* and the revamping of the Rays Outdoors brand (including store closures).

The Warehouse

The Warehouse Group Limited (**The Warehouse**) is engaged in the retailing of general merchandise, apparel, stationery, consumer electronics, and home appliances. It primarily operates through *'The Warehouse', 'Warehouse Stationery', 'Noel Leeming'* and *'Torpedo7'* operating groups. The Warehouse also provides consumer credit cards and insurance, and corporate credit and charge card solutions under the *Diners Club* brand. Across its portfolio of brands The Warehouse has over 233 stores and several online businesses. Over the last 3 years The Warehouse has undertaken a number of acquisitions including Noel Leeming, Torpedo 7 and Diners Club (NZ). Due to tough trading conditions in New Zealand it is anticipated that The Wharehouse's profit will decline in FY15 and the board have announced a reduction in the dividend.

Appendix D – Valuation Methodology Descriptions

1. Capitalisation of Earnings

Capitalisation of earnings or cash flows is most appropriate for businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual expenditure requirements. This methodology involves capitalising the earnings or cash flows of a business at a multiple that reflects the risks of the business and the stream of income that it generates. These multiples can be applied to a number of different earnings or cash flow measures including EBITDA, EBITA, EBIT or net profit after tax. These are referred to respectively as EBITDA multiples, EBITA multiples, EBIT multiples and price earnings multiples. Price earnings multiples are commonly used in the context of the share market. EBITDA, EBITA and EBIT multiples are more commonly used in valuing whole businesses for acquisition purposes where gearing is in the control of the acquirer.

Where an ongoing business with relatively stable and predictable earnings is being valued Grant Samuel uses capitalised earnings or operating cash flows as a primary reference point. Application of this valuation methodology involves:

- estimation of earnings or cash flow levels that a purchaser would utilise for valuation purposes having regard to historical and forecast operating results, non-recurring items of income and expenditure and known factors likely to impact on operating performance; and
- consideration of an appropriate capitalisation multiple having regard to the market rating of comparable businesses, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk.

The choice between the parameters is usually not critical and should give a similar result. All are commonly used in the valuation of industrial businesses. EBITDA can be preferable if depreciation or non-cash charges distort earnings or make comparisons between companies difficult but care needs to be exercised to ensure that proper account is taken of factors such as the level of capital expenditure needed for the business and whether or not any amortisation costs also relate to ongoing cash costs. EBITA avoids the distortions of goodwill amortisation. EBIT can better adjust for differences in relative capital intensity.

Determination of the appropriate earnings multiple is usually the most judgemental element of a valuation. Definitive or even indicative offers for a particular asset or business can provide the most reliable support for selection of an appropriate earnings multiple. In the absence of meaningful offers, it is necessary to infer the appropriate multiple from other evidence.

The usual approach is to determine the multiple that other buyers have been prepared to pay for similar businesses in the recent past. However, each transaction will be the product of a unique combination of factors. A pattern may emerge from transactions involving similar businesses with sales typically taking place at prices corresponding to earnings multiples within a particular range. This range will generally reflect the growth prospects and risks of those businesses. Mature, low growth businesses will, in the absence of other factors, attract lower multiples than those businesses with potential for significant growth in earnings.

An alternative approach used in valuing businesses is to review the multiples at which shares in listed companies in the same industry sector trade on the share market. This gives an indication of the price levels at which portfolio investors are prepared to invest in these businesses. Share prices reflect trades in small parcels of shares (portfolio interests) rather than whole companies and it is necessary to adjust for this factor.

The analysis of comparable transactions and share market prices for comparable companies will not always lead to an obvious conclusion as to which multiple or range of multiples will apply. There will often be a wide spread of multiples and the application of judgement becomes critical. Moreover, it is necessary to consider the particular attributes of the business being valued and decide whether it warrants a higher or lower multiple than the comparable companies. This assessment is essentially a judgement.

2. Discounted Cash Flow

Discounting of projected cash flows has a strong theoretical basis. It is the most commonly used method for valuation in a number of industries, and for the valuation of start-up projects where earnings during the first few years can be negative. DCF valuations involve calculating the net present value of projected cash flows. This methodology is able to explicitly capture the effect of a turnaround in the business, the ramp up to maturity or significant changes expected in capital expenditure patterns. The cash flows are discounted using a discount rate, which reflects the risk associated with the cash flow stream. Considerable judgement is required in estimating future cash flows and it is generally necessary to place great reliance on medium to long-term projections prepared by management. The discount rate is also not an observable number and must be inferred from other data (usually only historical). None of this data is particularly reliable so estimates of the discount rate necessarily involve a substantial element of judgment. In addition, even where cash flow forecasts are available the terminal or continuing value is usually a high proportion of value. Accordingly, the multiple used in assessing this terminal value becomes the critical determinant in the valuation (i.e. it is a "de facto" cash flow capitalisation valuation). The net present value is typically extremely sensitive to relatively small changes in underlying assumptions, few of which are capable of being predicted with accuracy, particularly beyond the first two or three years. The arbitrary assumptions that need to be made and the width of any value range mean the results are often not meaningful or reliable. Notwithstanding these limitations, DCF valuations are commonly used and can at least play a role in providing a check on alternative methodologies, not least because explicit and relatively detailed assumptions need to be made as to the expected future performance of the business operations.

3. Realisation of Assets

Valuations based on an estimate of the aggregate proceeds from an orderly realisation of assets are commonly applied to businesses that are not going concerns. They effectively reflect liquidation values and typically attribute no value to any goodwill associated with ongoing trading. Such an approach is not appropriate in Kathmandu's case.

4. Industry Rules of Thumb

Industry rules of thumb are commonly used in some industries. These are generally used by a valuer as a "cross check" of the result determined by a capitalised earnings valuation or by discounting cash flows, but in some industries rules of thumb can be the primary basis on which buyers determine prices. Grant Samuel is not aware of any commonly used rules of thumb that would be appropriate to value Kathmandu. In any event, it should be recognised that rules of thumb are usually relatively crude and prone to misinterpretation.

Appendix E – Interpretation of Multiples

Earnings multiples are normally benchmarked against two primary sets of reference points:

- the multiples implied by the share prices of listed peer group companies; and
- the multiples implied by the prices paid in acquisitions of other companies in the same industry.

In interpreting and evaluating such data it is necessary to recognise that:

- multiples based on listed company share prices do not include a premium for control and are therefore often (but not always) less than multiples that would apply to acquisitions of controlling the interests in similar companies. However, while the premium paid to obtain control in takeovers is observable (typically in the range 20-35%) it is inappropriate to simply add a premium to listed multiples. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by share market investors;
- acquisition multiples from comparable transactions are therefore usually seen as a better guide when valuing 100% of a business but the data tends to be less transparent and information on forecast earnings is often unavailable;
- the analysis will give a range of outcomes from which averages or medians can be determined but it is not appropriate to simply apply such measures to the company being valued. The most important part of valuation is to evaluate the attributes of the specific company being valued and to distinguish it from its peers so as to form a judgement as to where on the spectrum it belongs;
- acquisition multiples are a product of the economic and other circumstances at the time of the transaction. However, each transaction will be the product of a unique combination of factors, including:
  - economic factors (e.g. economic growth, inflation, interest rates) affecting the markets in which the company operates;
  - strategic attractions of the business – its particular strengths and weaknesses, market position of the business, strength of competition and barriers to entry;
  - the company's own performance and growth trajectory;
  - rationalisation or synergy benefits available to the acquirer;
  - the structural and regulatory framework;
  - investment and share market conditions at the time, and
  - the number of competing buyers for a business;
- acquisitions and listed companies in different countries can be analysed for comparative purposes, but it is necessary to give consideration to differences in overall share market levels and rating between countries, economic factors (economic growth, inflation, interest rates), market structure (competition etc) and the regulatory framework. It is not appropriate to adjust multiples in a mechanistic way for differences in interest rates or share market levels;
- acquisition multiples are based on the target's earnings but the price paid normally reflects the fact that there were cost reduction opportunities or synergies available to the acquirer (at least if the acquirer is a "trade buyer" with existing businesses in the same or a related industry). If the target's earnings were adjusted for these cost reductions and/or synergies the effective multiple paid by the acquirer would be lower than that calculated on the target's earnings;
- while EBITDA multiples are commonly used benchmarks they are an incomplete measure of cash flow. The appropriate multiple is affected by, among other things, the level of capital expenditure (and working capital investment) relative to EBITDA. In this respect:

- EBIT multiples can in some circumstances be a better guide because (assuming depreciation is a reasonable proxy for capital expenditure) they effectively adjust for relative capital intensity and present a better approximation of free cash flow. However, capital expenditure is lumpy and depreciation expense may not be a reliable guide. In addition, there can be differences between companies in the basis of calculation of depreciation; and
- businesses that generate higher EBITDA margins than their peer group companies will, all other things being equal, warrant higher EBITDA multiples because free cash flow will, in relative terms, be higher (as capital expenditure is a smaller proportion of earnings).

Appendix F – Qualifications, Declarations and Consents

1. Qualifications

The Grant Samuel group of companies provides corporate advisory services in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 400 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer, BCA, Simon Cotter, BCom, MAppFin and Jake Sheehan B.Com (Hons). Each has a significant number of years of experience in relevant corporate advisory matters.

2. Limitations and Reliance on Information

Grant Samuel's opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. The report is based upon financial and other information provided by the directors, management and advisers of Kathmandu. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion as to the underlying value of Kathmandu. However in such assignments time is limited and Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose.

The time constraints imposed by the Takeovers Code are tight. This timeframe restricts the ability to undertake a detailed investigation of Kathmandu. In any event, an analysis of the merits of the offer is in the nature of an overall opinion rather than an audit or detailed investigation. Grant Samuel has not undertaken a due diligence investigation of Kathmandu. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Kathmandu. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of the management of the relevant enterprise. That information was also evaluated through analysis, enquiry and review to the extent practicable. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included projections of future revenues, expenditures, profits and cash flows of Kathmandu prepared by the management of Kathmandu. Grant Samuel has used these projections for the purpose of its analysis. Grant Samuel has assumed that these projections were prepared accurately, fairly and honestly based on information available to management at the time and within the practical constraints and limitations of such projections. It is assumed that the projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise.

However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the projections of future profits and cash flows for Kathmandu. Projections are inherently uncertain. Projections are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by Kathmandu is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;
- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of Kathmandu, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of Kathmandu, other than as publicly disclosed.

3. Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to the merits of the Briscoe Offer. Grant Samuel expressly disclaims any liability to any Kathmandu share holder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Target Company Statement issued by Kathmandu and has not verified or approved any of the contents of the Target Company Statement. Grant Samuel does not accept any responsibility for the contents of the Target Company Statement (except for this report).

4. Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with Kathmandu or Briscoe that could affect its ability to provide an unbiased opinion in relation to the Briscoe Offer. Grant Samuel had no part in the formulation of the Briscoe Offer. Its only role has been the preparation of this report. Grant Samuel will receive a fixed fee for the preparation of this report. This fee is not contingent on the outcome of the Briscoe Offer. Grant Samuel will receive no other benefit for the preparation of this report. Grant Samuel considers itself to be independent for the purposes of the Takeovers Code.

5. Information

Grant Samuel has obtained all the information that it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any Director of Kathmandu and made available to the Directors. Grant Samuel confirms that in its opinion the information provided by Kathmandu and contained within this report is sufficient to enable Kathmandu shares holders to understand all relevant factors and make an informed decision in respect of the Briscoe Offer. The following information was used and relied upon in preparing this report:

5.1 Publicly Available Information

- Kathmandu Annual Reports for the financial years ended 31 July 2010 - 2014;
- Briscoe's Annual Reports for the financial years ended January 2011 - 2015;
- Kathmandu's 1H FY15 results presentation dated March 2015;
- Kathmandu's FY14 final results presentation dated September 2015;
- Kathmandu Investor Prospectus dated October 2009;
- Various broker's reports on Kathmandu, Briscoe and its competitors;
- Briscoe presentation on the proposed offer to Kathmandu shareholders dated 1 July 2015; and
- Briscoe Simplified Disclosure Prospectus dated 1 July 2015.

5.2 Non Public Information

- Kathmandu's monthly management accounts for the financial year ended 31 July 2014 and for the financial year ending 31 July 2015;
- Kathmandu's budget model for the financial year ending 31 July 2016 and projections for the financial years ending 31 July 2017 and 31 July 2018, including pro forma financial statements;
- Kathmandu's Board Papers from the last twelve months;
- Kathmandu's presentation on the FY16 Budget Plan dated July 2015; and
- Kathmandu's presentation on the re-forecast for FY15 dated February 2015, including the associated financial model.

6. Declarations

Kathmandu has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a Court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Kathmandu has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action. Any claims by Kathmandu are limited to an amount equal to the fees paid to Grant Samuel.

Advance drafts of this report were provided to the directors and executive management of Kathmandu. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7. Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Target Company Statement to be sent to shares holders of Kathmandu. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

Goldman Sachs Australia Pty Ltd is acting as financial adviser to Kathmandu in connection with the Offer. Goldman Sachs Australia Pty Ltd has not authorised, permitted or caused the issue, submission, despatch or provision of this Statement and there is no statement in this document which is based on any statement made by Goldman Sachs Australia Pty Ltd or by any of its affiliates or their officers or employees. To the maximum extent permitted by law, Goldman Sachs Australia Pty Ltd and its affiliates and their officers and employees expressly disclaim all liabilities in respect of, and make no representations regarding, and take no responsibility for, any part of this Statement other than references to their name and make no representation or warranty as to the currency, accuracy, reliability or completeness of this Statement.

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