

[11.01 am]

5 MR KIRK: Thank you all very much for coming to the Kathmandu Annual  
General meeting. We are delighted to have you on a beautiful  
Christchurch sunny day. It is great to have you here. I have much  
pleasure in opening the sixth Kathmandu Holdings Limited Annual  
General Meeting and, of course, extending a very warm welcome to all  
of those present.

10 On the information conveyed to me, I declare that a quorum of  
shareholders is present and the meeting has therefore been duly  
convened. For those who do not know me, I am David Kirk,  
Kathmandu Chairman, and before we start the formal business I would  
like to introduce your other directors to you.

15 On my left starting at the end is John Harvey. Next to him is Sandra  
McPhee, and on my right John Holland on the far right, and in the  
middle, Xavier Simonet our CEO and Managing Director. You will  
notice on the very left-hand end Christine Cross, one of the directors of  
20 Kathmandu is not here. Unfortunately on Sunday, Christine fell in  
Sydney and broke her arm, and she was hospitalised for a couple of  
days and then flew back to United Kingdom. So she gives her  
apologies and really did wish she could be here.

25 Just on the proxies, I wish to advise the proxies have been received in  
respect of approximately 48 percent of issued shares. More than 91  
percent of the proxies directed are in favour of all resolutions.

30 Before moving on to the formal business of the meeting, I will outline  
some meeting procedures. An opportunity will be given to  
shareholders to ask questions about, or make comments on the items of  
business on the agenda for today's meeting. Where appropriate, I will  
refer detailed questions best answered by management to Xavier  
35 Simonet or other directors. Shareholders have been given the  
opportunity of submitting written questions via the AGM question form  
that accompanied the notice of meeting. No written questions have  
been received.

40 Once we have considered the financial reports, shareholders will be  
given the opportunity to ask general questions. Shareholders with  
questions relating to specific resolutions are requested to ask those  
questions when we are considering the relevant resolution. When we  
do open up the floor up to the discussion, I ask that for the convenience  
of all present, that those shareholders who wish to speak use the  
45 available microphone. Would you please just introduce yourself and  
say which group you are representing if you do represent a group, and

then we can move ahead. Please hold up your white or green cards and state your name if you do wish to ask a question, and we will bring the microphone to you.

5 Before moving to the various motions, I will briefly run through the voting procedures. At registration you will have received an attendance or voting card. If you have a white voting card, this indicates you are a shareholder and are entitled to vote and to address the meeting. If you have a green, non-voting investor card as such, you  
10 are either a joint shareholder or have already returned a proxy vote. Prior to the commencement of the meeting you are entitled to address the meeting.

15 If you are a visitor to the meeting, you will have received a visitor card and you are welcome to be here today but will not be able to address the meeting, and of course not vote. If you do not have a voting card and believe you are entitled to vote, please see one of the registry staff from Link Market Services at the registration desk just outside the meeting room immediately. The minutes of the fifth Annual General  
20 Meeting held last year were available at the meeting room entrance. I hope those who are interested in seeing them have had a chance to do so.

25 The first item on the agenda is to receive and consider the financial statements and auditor's report as contained in the company's Annual Report for the year ended 31 July 2015. Before seeking shareholder's comments on the report, I would like to give an overview of the 2015 year, and I will then ask our Chief Executive Officer, Xavier Simonet, to provide a review of our activities in the year and an update on the trading to date, and the outlook for the current financial year.  
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**[11.06 am]**

35 Good morning ladies and gentlemen, I am pleased to address you as Chairman of Kathmandu Holdings for the second time. As you will no doubt all be aware, 2015 was a difficult year for Kathmandu and the company had a disappointing result. Kathmandu's total sales grew by 16.5 million, to 409.4 million. We opened an additional ten new permanent stores during the year and saw good growth in online sales.  
40

45 However, same-store sales growth decline by 1.9 percent in the year. Increased operating expenses in anticipation of sales growth – which did not eventuate – combined with a reduction in gross margin resulted in a decline in earnings before interest and tax of 48 percent, which was very disappointing.

5 Net profit was down in the year by 21.8 million which meant a reduction in earnings per share to 10.1 cents per share. Encouragingly, trading performance improved during our winter sale late in the year where we experienced same-store sales growth at significantly improved gross margins, compared to the previous year. Xavier will talk more in just a moment about more recent performance. Our total dividend pay-out for the full year was eight cents per share which represents an increase in the pay-out ratio to over 78 percent.

10 Despite the disappointing financial performance in the year, we remain confident that Kathmandu has a bright future and we made some important progress in 2015. During the year we concluded our crucial investment in core systems, which was a very large project across the whole company, and New Zealand warehouse facilities. We also  
15 commenced our investment in new Australian warehousing and we grew our online sales and continued our move to become a multi-channel retailer, we grew our online sales by 28 percent.

20 Following the departure of Peter Halkett the Board was delighted to secure an outstanding replacement in Xavier Simonet.

25 Xavier has made an immediate impact, taking decisive action on a number of fronts and in particular resetting an appropriate cost base for the company. We recently farewelled Mark Todd who is here today. We are delighted to see him. Mark was a director and employee of the company for almost 18 years and we wish him very well for the next stage of his career, and we are delighted to see him in Christchurch today and at the meeting.

30 Supporting Xavier are an energetic and committed management team who are excited about the challenge of delivering an improved result in 2016.

35 I will briefly touch on our growth plans before handing over to Xavier to provide much more detail. Our immediate challenge won't surprise you at all; our immediate challenge is to improve our 2015 result significantly in 2016. We have been given clear market guidance of a much improved performance and we remain committed to that guidance, and Xavier will talk more about this in a minute.

40 Future growth at Kathmandu will come from an intense focus on same-store sales growth which will require continued improvement in product design and merchandising, a great instore experience and continued investment in the Kathmandu brand and Summit Club  
45 loyalty programme. There continues to be opportunity to open more stores in Australia and we intend to drive strong growth in a range of

online channels. Additional international growth opportunities also exist for the company and these will be pursued in a capital-light manner, that is, without opening bricks and mortar stores. Supporting this, the resetting of our cost base to appropriate levels improves our operating margin.

Despite the difficult year in 2015, we are confident that the strength of the Kathmandu brand, products, and the passion of our people will underpin the future success of the company. It is time for me to finish up but, but first I would very much like to thank my fellow directors. 2015 was a very busy year and a challenging year, and I thank them all very much for their continued support, wise advice, and determination to see the company thrive. And on their behalf, I also thank you for your support as investors. We know you have taken or retained your investment in Kathmandu expecting an improvement in earnings, and that is what your Board is absolutely focussed on delivering for you.

I will now ask Xavier Simonet to address you.

MR SIMONET: Okay, thank you David. We would all agree that if Kathmandu is around adventure travel, I have been on an adventurous trip since I started with the company and I want to reaffirm how energized and motivated and excited I am to have joined this great company and its fantastic brand, and particularly to have joined a great, passionate team that is fully committed to the business.

Now, I want to say a few words about our performance last year, or more precisely about underperformance. There is no new news there. We have been caught in a triple-whammy between sales that are below budget, gross margin that was under the expectation but also for the prior year and increasing cost. All in all, as David said in his address, our profits were heavily down.

**[11.11 am]**

I need to also emphasise the good things that happened last year, and more particular the fact that in the last quarter of the year, we got same-store sales growth at more healthy margins. We also delivered significant growth with our online business, increased the numbers of summit club members across Australasia, and this is a very key asset for our company.

We also continued to open stores and opening stores has been a great success story for us across Australasia. That has been the focus for the company over the last few years, and that has given us great scale in Australia and New Zealand, scale that we can now leverage and focus

on the existing assets. So we continue to open stores and we now have 160 stores in Australia, New Zealand, and a few in the UK.

5 And we have also started building a new distribution center in Australia, which is a cost for you shareholders initially, but we are confident we are going to deliver value and drive efficiency through this new distribution centre in Melbourne.

10 I am not going today to present a full strategy. That is still to be formulated. What I would like to do is to give you an update on the key areas of focus for me and the team, and the first areas of focus that I have is the review of our pricing architecture and promotional model. I strongly believe in the promotional model of Kathmandu. This model has made the brand and our business successful, and actually, it is all about delivering value to our customers and bringing great products to our customers at great value.

20 It is also about making our product category accessible to everybody across Australia and New Zealand, and there is a very very strong message that we want to continue giving through great activities, prices, deals, and discounts to our customers. However, we have got to acknowledge that our customers have become confused, and also to be fair, our teams in the stores as well, about the complexity of our offers, of the number of layers, and the fact that people do not really understand what we are trying to achieve through promotions and discounts. So we have got to reset the clock and we have worked hard with external parties on an adjusted promotional model.

30 So it is not about changing the model, that again, has made us successful. It is about adjusting, structuring, and optimizing the promotional model and pricing architecture. I won't go into the details, but a few things I want to highlight are the fact that we are reviewing our promotional calendar. We are also doing a very focussed pricing and elasticity analysis, and we are reviewing also the investments we are making in media to make sure that they are optimized and they're conveying the right message to our customers at the right time. This review is very customer-centric and shouldn't disrupt the customer journey. The worst thing that could happen to us is to disrupt the customer journey.

40 It is about our customers, it is about making our promotions and our activities clearer to customers and still delivering and offering great products to our customers at great value.

45 The second focus for us is to improve our profitability in existing stores. We have opened a lot of stores over the last few years and we

have reached a situation where we are not going to continue opening 15 stores a year. We are going to continue opening stores as the opportunities arise, particularly in Australia, but what we have got to do is to focus on our existing assets and make sure that they perform. So it is about driving profitability, it is about driving gross profit, dollar densities in our existing stores. It is about visual merchandising, executing promotions, having the right teams in the stores.

It is about labour cost and optimizing labour cost, and we are making some investments in tools and systems to drive our workforce allocation. It's about working on traffic and conversion, and it is about optimizing the space allocation in our stores across Australasia. We've got strong assets with our stores and actually, the type of stores we have in terms of unprofitable stores is very very limited. Most of our stores are profitable, and it's about driving densities and driving profitability in the existing stores as a priority for us.

**[11.16 am]**

Kathmandu is a successful retailer and I understand that we underperformed last year, but historically, we have performed very well. I believe that's more than just being a retailer. We're a great brand with a fantastic brand name, a great logo, great green colour codes, and there's much more we can do to leverage the brand in terms of our roots in New Zealand, the fact that the brands travelled to the Australian outback, the fact that we have got a very distinctive territory, which is adventure travel, that no other brand in Australasia, but also internationally, owns. I think we can leverage that territory.

But also, all the stories we can do to engage with customers and be more inspirational, and particularly engage with our Summit Club members about technology, performance, sustainability, protection of the environment, creativity, innovation. All these stories we can leverage, and also use the digital channel to leverage these strong assets we have to build up the brand equity of Kathmandu in the same way global brands in the outdoor sector build up their brand equity around the world.

Although we are not going to continue opening many stores every year and the focus is shifting from opening stores to driving productivity and efficiencies, and optimising existing assets, we will continue to open a few stores a year as opportunities arise. We need to open stores where customers buy and with a very customer-centric approach, but also with a very financially conscious approach. We will continue to open a few stores as a year as the opportunities arise, and we just opened two flagship stores, one in Adelaide and one in Melbourne last

week. Very excited about that, very excited about the Melbourne store as a green store focussed on sustainability, and that is something we are going to leverage in our communication.

5 But again, all these stores are about profitability, about productivity, about delivering value for our shareholders.

I'd like to say a few words about other growth opportunities we have. We've got quite a strong online business. It accounts for around 6.2  
10 percent of our total business in Australasia, which is actually quite good when you look at how we're performing against benchmarks. But I believe we can get much stronger and we can probably go to 10 percent as a first base and beyond. So that's going to be a strong focus in terms of leveraging the brand equity, in terms of driving new  
15 functionalities, in terms of leveraging our Summit Club members to be able to grow in that area.

As far as international is concerned, I know that we've closed a few stores in the UK and it's been reported in the press that we're closing  
20 the UK and we're closing international. Actually, that's not true. We are closing a couple of stores in the UK on top of the stores we had planned to close anyway. Acknowledging that the model as it is today has not performed for us over years, but I strongly believe that our brand based on a unique territory and on its strong assets can be an  
25 international brand, and we're going to define a global strategy that has to be a capital-light strategy, partly leveraging the online business as well as capital-light models.

**[11.21 am]**

30 I just want to say a word about costs. Cost is a very strong focus for us, particularly in the context of our underperformance last year, and very clearly we've had to review our cost base, and that's what we have done decisively and quickly a few months ago. Unfortunately we had  
35 to reduce a number of jobs and it had an impact on our team, and that's really unfortunate. We reduced the number of roles in our two head offices by 27. But it's not just about cutting costs, it's about having a very strong focus on delivering efficiencies and continuously delivering efficiencies in our business every day.

40 So it's about reviewing our labour costs in the stores and optimizing those costs. It's about also optimizing our costs in our distribution center. It's about understanding the KPI's that drive our media investments and we're spending a lot of money in media, but we need  
45 to understand what drives value for the shareholders, what drives customers to our stores, and in what areas we shouldn't spend any

5 money. It's also about driving our gross profit margin, and I know we've got a challenge in terms of the foreign exchange rate, but we believe that there's still some work we can do in that area by negotiating harder with our suppliers, by moving part of our production from China to other countries, and by also reviewing our promotional model and delivering great products at great value for our customers, but also making sure that we optimise our gross margin.

10 I want to give you a trading update, but a word of caution first. This trading update is after a few weeks into our financial year and it doesn't account for a lot of the total year performance, so we need to be cautious that the update is just for a limited period of time.

15 And I am happy to report quite a strong performance actually, so year to date to 15 November, our total company sales are 8.6 percent on last year, but if we look at the same-store sales growth actually, we are up 4.8 percent on last year, which is strong performance in Australia at 6.5 percent, Australia being our core market and also being a very big growth opportunity.

20 What is important is that this sales growth didn't come at the detriment of the growth margin. Actually, we increased the gross margin by five points versus last year, which shows that we didn't have to discount products to get the sales growth, and actually we could get healthy sales growth at the same as deliver higher gross margin to the company and shareholders.

30 As far as operating expenses our concerned, they are flat on last year which is good considering that we have opened more stores and we have to bear all the costs relating to more stores opening, and we've got also the costs related to growing sales. And operating expenses went down as a percentage on that sales which is a good sign for the company.

35 So what is the outlook for this year? Well year to date, we've delivered the numbers in line with our expectations, and we're able to show growth in terms of sales and growth profit margin at the same time as showing that an effort has been made in terms of reducing costs. Yes, as I said before, a word of caution in terms of our half-year numbers which are going to be very dependent on Christmas, which is a big activity for us. We plan to achieve margin recovery through profitable sales in Australasia, operational leverage from cost efficiency measures, and we very much remain committed to our FY15 forecast.

45 Thank you very much.



MR KIRK: Thank you Xavier, that was a very clear description of the company's areas of focus and your leadership is clear across all of that. So shareholders I think that can place a great deal of confidence in the man that they have got at the helm of the company, so thank you.

5

I would like again to express my thanks and those of my fellow directors to you Xavier, and your broader team for the contribution that you've made over the last period that you've been with us.

10

Let's go on now to the resolutions as we've got there - there were no written questions received. Would anyone now wishing to speak and ask further questions please hold up your card and a microphone will be passed to you.

15

We'll probably do it per resolution so we'll bring around the microphone per resolution. Is that fine for you? Okay, well let's have that then. Let's have some comment.

20

MR TILLMAN: Thank you, Mr Chairman. Can you hear me? My name is Dr Peter Tillman, I am a joint shareholder. I am a non-voting investor since I've given it to somebody else, and I'm also a Kathmandu [Summit] Club member. While the people here, I think there is only one person who fits within the statistical area of online shopping and I don't think that child has been born yet. Most of the people, I understand nowadays, who go online are probably in the 13-35 age group. Most of us are slightly older than that, except for the one person I mentioned.

25

30

I'm very disappointed that only 6.2 percent of the people who are using our services are using it online and I think that we should be concentrating on that like a lot of other retailers are, to do online work rather than opening new shops.

**[11.26 am]**

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So without giving too many things away, what are your plans for increasing the computer age?

40

MR SIMONET: I very much agree that we can perform better online. As I said before, I am not going to present a strategy today. That's something that we're working on, but there's certainly more potential to grow online business in Australasia as well as internationally, so I agree with your point.

45

MR SMITH: I'm not sure that I'll need it but I've got it anyway. Mr Simonet gave an extremely good breakdown of the situation as he sees it, and

the history, and forward. To summarise what he said and to put it in black and white, can you confirm the forecast increase in profit of 20 percent for 2016 representing \$30,000,000 remains achievable? Pretty much a yes or no answer.

5

MR KIRK: The answer from both of us is yes. It's not 20 percent increase, it's actually significantly more than that, but the 30.2 forecast you referenced - - -

10 MR SMITH: Even better.

MR KIRK: - - - is absolutely in our focus and we remain committed to that forecast. We believe we'll achieve it.

15 MR SMITH: Okay, fine.

MR KIRK: All right, if there are no more questions we'll go onto the formal resolutions.

20 The first one, the second item on the agenda, is the election of directors. Article 4.4 of the company's constitution requires at least one third of the directors to retire by rotation at the Annual Shareholders Meeting. To comply with the existing rules, it is necessary for each director to be appointed by separate resolution. It's  
25 not my intention to ask each of the directors to speak to you individually in support of the motion for the re-election, brief profile details were included in the notice of meeting in the annual report.

30 The first motion relates to the reappointment of Mr John Holland as a director of the company, and I have pleasure in moving that Mr Holland who retires in accordance with Article 4.4 of the company's constitution and being eligible, offers himself for re-election, be re-elected as a director of the company. Now, we'd like to have any question or discussions. Is there any discussion?

35

MR SMITH: It is my intention to ask Christine Cross some questions, but clearly she's not available here today, and I understand that, so I'll address these questions to Mr Holland.

40 Mr Holland, we understand that you are a member of the remuneration committee for Kathmandu?

MR HOLLAND: That is correct, all of the non-executive directors are members of the remuneration committee.

45

**[11.31 am]**

MR SMITH: Okay, fine. Could you please tell us what qualifications you have that warrant you being a member of that sub-committee?

5 MR HOLLAND: Right, I am a securities lawyer, I have been involved in the last 20 years in numerous employee share schemes, the development of them. I have been a member of the Securities Commission, which has also looked at employee share schemes, both from governance and a securities law perspective. I am a chairman of a construction company  
10 that has to deal with remuneration issues.

I have advised numerous boards, in my capacity as a lawyer, on issues relating to remuneration. But I suppose one question you may be asking is do we take, as a remuneration committee, take advice; and the  
15 answer to that is yes. Over the years since I have been a director and part of the remuneration committee we have taken extensive advice, and that has mostly been from EY based in Melbourne, who have a very high reputation in Australia for their remuneration advice.

20 Does that answer your question?

MR SMITH: It does. It is duly noted, so we will certainly look at that. You seem qualified for that. However, we now must ask you in light of the LTI scheme that you as a member of that remuneration committee came up with, could you please explain to us, how you arrived at the  
25 original, not the one that has been adjusted, but the original CEO LTI scheme?

MR HOLLAND: Right, I did read what the shareholders association were quoted as saying in the NBR this morning, and sometimes you get misquoted. So, there is, in my opinion, nothing wrong with the LTI structure itself, and that was devised after advice from EY over a number of years, and is very consistent with best practice, particularly in Australia – In New Zealand often performance rights schemes are  
30 less prevalent.  
35

But the answer to that is very simple, so there was nothing wrong with the structure of the scheme, so when the negotiations over Xavier's appointment arose, we sat down and worked out what we were going to offer him and what the mix was going to be between the base STI and long term incentive, and I think we have got that mixture right.  
40

And at that time we didn't know how poorly we were going to do in FY15. Now that is starting to sound like a plea in mitigation, and I don't mean it to.  
45

MR SMITH: Okay.

MR HOLLAND: Because I am embarrassed and I will let my other Board members say what they want, but I am personally embarrassed that I didn't pick up on that once we knew where we were at with our FY15 result. Because it now seems blindingly obvious, and I make no excuses for not picking that up.

MR SMITH: Okay.

MR HOLLAND: And all I can say is when Mr Duke pointed that out to us we determined correctly that that needed to be readdressed. I know that there was some comment from the shareholders association that you would have liked to have done that within the hour.

We could have compounded the original mistake by making another one, so we actually waited until our scheduled board meeting yesterday. Our CFO put through a series of different options with the effects and what the percentage increases were. We looked at all of those. You might be interested to know we debated them quite vigorously as to where exactly we were going to land, and then we made a decision.

So yes, I am embarrassed and disappointed that as a committee we didn't pick up the problem with the performance hurdle, but I reiterate there is nothing wrong in my opinion with the scheme itself.

[11.36 am]

And we said we would rectify it and we have.

MR SMITH: Only after some pressure?

MR HOLLAND: No, as soon as Mr Duke pointed it out to us, we agreed.

MR SMITH: Yes, well that is pressure.

MR HOLLAND: No, no, that is just simply notification.

MR SMITH: In your opinion.

MR HOLLAND: I don't see any other way. Okay.

MR KIRK: No, I think that is a point – it doesn't need to be pressed further Max, I have to say.

MR SMITH: Okay. Can you give this meeting and all shareholders some assurance that future efforts in such areas will be carried out with a great deal more diligence?

5 MR HOLLAND: Yes, and if I didn't believe that I wouldn't standing for re-  
election. Sorry, everyone makes mistakes, so I am not saying I have  
never made a mistake, but this would have to be one of the more  
obvious ones that I have made in 25 years of my business career. But I  
10 can sort of see how it happened, but as I said I am not really wanting to  
put forward a plea in mitigation, because there was a significant time  
period between determining and negotiating Xavier's remuneration to  
yes, we have now got to get it approved at the AGM, because of ASX  
requirements.

15 MR SMITH: Well thank you for that, and at least you have been pretty  
straightforward in answering it, and we appreciate that.

Based on that, Mr Chairman, we will be voting our undirect proxies in  
favour of Mr Holland.

20

MR KIRK: Thank you. I will come to you in a minute Peter, can I make a  
comment. John, because he is being re-elected and you have directed  
the questions to him, and I think he has answered very  
straightforwardly and comprehensively, and thank you for  
25 acknowledging that, but I do think it is not fair in a way for John to  
take all the heat, and I think the full Board, because the full Board is  
also represented on the remuneration committee, absolutely takes  
responsibility for not picking up earlier enough the way in which the  
vesting would work, given the abnormally low earnings in 2015.

30

So I thank John for his clear and comprehensive explanation, but I also  
think it is important that you recognise that it is the full Board and all  
members of the remuneration committee who are culpable.

35 MR SMITH: It is a fact though Mr Chairman though that the evidence of  
management should be coordinated with that of shareholders, and that  
there is a fundamental right of good governance that you should do  
that, and the fact that you didn't is a clear indication that there was a  
shortcoming there somewhere.

40

MR KIRK: Yes, I think that is correct, but I think that the point John, and I  
don't really want to go on too much, because John I think has answered  
your questions very clearly, so we don't need to go over the ground  
again. But he did make a very good and clear point that there is  
45 nothing wrong with the fundamental long term incentive plan.

MR SMITH: We would agree with him.

MR KIRK: Yes, thank you very much. What was wrong with the way it was going to be applied, given the abnormally low earnings, and what was also wrong was that the Board and the remuneration committee didn't pick up early enough, didn't pick it up at all until we were reminded of it and make that adjustment, which we were only too happy to do and very pleased that it was picked and were able to make that adjustment as quickly as we could to make sure that remuneration of management and shareholder value creation was appropriately aligned.

MR TILLMAN: Thank you. As a general principal, if you make a mistake you should stand by it. I am a doctor, a medical doctor, if I make a mistake I have to go before professional bodies, I have to justify every single thing I have done.

I think one has to be very clear, and I want it recorded in the Minutes, that I am not happy with a Board that makes mistakes and does not own up to it and deal with in the correct manner.

MR SMITH: I will second that.

MR KIRK: I don't want to get into a some sort of semantic debate here, but I thought John made it very clear, and I made it very clear just now that we do own up to the mistake. There was a mistake and we readily admit that it was a mistake not to adjust the vesting, the starting point or the percentage increase required in the vesting criteria. So Peter, I think it is fair to say we are owning up to that.

I don't want to continue the debate, but I do think it was a somewhat unfair and inaccurate comment.

**[11.41 am]**

MR TILLMAN: I think I am entitled to - - -

MR KIRK: No, you are certainly entitled to make it, but in my response is that is unfair and inaccurate.

MR TILLMAN: He made a comment that he had taken professional advice in respect of - - -

MR KIRK: No, but you have got to make the distinction between the nature of - - -

MR HOLLAND: No, no, sorry, just to clarify that, I was talking about professional advice in relation to the structure of the scheme.

MR KIRK: Yes.

5

MR HOLLAND: I never acknowledged that it – sorry, I thought I had made it clear that it was a mistake that should not have happened, but I also believe we made a conscious decision we would address it as soon as we became aware of it, and that was the day that Rod Duke rang John Harvey, and that was earlier in the week.

10

MR KIRK: Yes, okay. Are there any other questions regarding the re-election of Mr Holland? No? Thank you.

15

I will now put the motion then. Those in favour of the re-election of Mr Holland please raise their voting cards. I have got mine here as well as well as those.

Those against please raise their cards.

20

I declare the motion carried, thank you, and congratulations John on your re-election.

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The second motion relates to the reappointment of Christine Cross as a director of the company, and I have pleasure in moving that Ms Christine Cross, who retires in accordance with Article 4.4 of the Company's Constitution, and being eligible offers herself for re-election, that she be re-elected as a Director of the Company.

30

Is there any discussion on this motion, and I again give Christine's apologies. She was very sorry not to have been able to be here, but she did suffer quite a bad injury. Peter, again?

35

MR TILLMAN: Could we express our thanks to Christine and wish her all well in recovery. I think she has served this company very well and a broken wrist is a very unpleasant thing, especially if it's a scaphoid.

MR KIRK: Broken arm actually.

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DR TILLMAN: Oh, was it?

MR KIRK: Yes, a humerus.

DR TILLMAN: Even worse.

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MR KIRK: Yes.

DR TILLMAN: She can't fly.

5 MR KIRK: She actually has flown, so there must be an update on the medical treatment of fractured humerus.

MR SMITH: Just to confirm Mr Chairman, that we, the New Zealand Shareholders Association, will be voting in favour of Ms Cross' re-election, and in view of her absence today have no questions for her.

10 MR KIRK: Thank you very much. There being no further discussion, I will now put the motion. Those in favour please raise their voting cards.

15 Thank you. Those against please raise their cards. I declare the resolution carried.

Thank you, and congratulations to Christine in absenteeism on her re-election to the Board.

20 Thank you ladies and gentlemen for your continued support for the Board.

25 I now come onto auditors. The third item on the agenda is to authorise the directors to fix the fees and expenses of PriceWaterhouseCoopers as the company's auditor, therefore I move to record that PriceWaterhouseCoopers continue in office as the company's auditors and to authorise the directors to fix remuneration of PriceWaterhouseCoopers for the ensuing year. Is there any discussion or questions on this motion?

30 MR SMITH: May I ask how long PriceWaterhouseCoopers have been the auditors for Kathmandu?

35 MR KIRK: I will just pass that one to the Chairman of the Audit Committee, John.

MR HARVEY: Yes, I am not sure of the exact timeframe; certainly it is since the IPO.

40 MR KIRK: Six years?

MR HARVEY: Yes.

45 MR SMITH: Yes, okay.



MR HARVEY: In that time, I will say also we have had the original partner serve for five years, and we had a rotation of partner

5 MR SMITH: Right. The reason why we asked the question, is that the  
shareholders association believes that auditors should be changed over  
a period of eight to 10 years, in order that the matter be looked at by a  
different set of eyes and a different set of ears. And we would just  
leave that thought with you, it is not something that we would insist on  
but it is something that we think is important in the interest of  
10 shareholders that different auditors do look at the situation with a view  
to seeing things a wee bit differently perhaps.

MR KIRK: Okay, thank you for that comment. Are there any other points of  
discussion or questions? Peter?

15 DR TILLMAN: I second what Max has said. When I first came to New  
Zealand many years ago I wanted to know why there was only one  
auditor in a company – one to audit the books and one to give advice.  
Most European companies now have two auditors, one to give advice  
20 and then one who audit the books and present it officially. And I think  
you should have this differentiation. If we haven't, we should think  
about changing the auditors much more often so they don't make the  
mistakes that we have had recently.

25 MR KIRK: Thank you. Is there any other discussion? Mr Todd? Mark, I  
should say.

MR TODD: Would the Chairman and Audit Committee like to talk about  
Kathmandu's discipline, in our separation of audit and other  
30 consultancy services over this period in the company.

**[11.46 am]**

35 MR HARVEY: Thank you Mark, and if I can just make a comment on that, I  
mean obviously we have an audit charter as part of our audit and risk  
committee, and that charter is on the website for everybody to see.  
That sets out very much the process of reviewing the performance of  
the external auditors, it requires the five yearly rotation, which is also  
obviously a stock exchange requirement of audit partner.

40 We go through that and we have quite strong policies in respect of  
utilising the services of our auditors for any other advice, but we don't  
use them for tax for example, which is the biggest area, we use another  
firm for that.

45

So we do follow pretty strict policies in that regard, that they are the auditors of the company.

5 MR KIRK: Thank you. Is there any further discussion/questions on the appointment of the auditor and the Board's fixing of the auditors fee? No? Then I will put the motion.

Those in favour please raise their voting cards.

10 Those against please raise their cards. I declare the motion carried.

15 We come now to item 4, which is the grant of performance rights to Xavier Simonet, under the Kathmandu Holdings long term Incentive Plan. There has been, and of course there has been some public discussion on this item, and we have had a good open discussion on it today.

20 And I would like to reiterate, I already have, but I would like to reiterate again that I and the Board were slow to realise, made a mistake in not realising the implications of the low starting point for the vesting hurdles. As soon as we realised those implications we announced that we would be putting in place higher hurdles.

25 And has again been said already today, the Board met yesterday and as stated in the announcement made to the NZX and the ASX yesterday, those new higher more challenging earnings plus year growth targets to achieve full vesting have been set and put in place.

30 However, for the purposes of this meeting, the resolution that went out with the Notice of Meeting will be put as contained in that Notice of Meeting, and that is a requirement on us.

35 Shareholder approval is required under ASX Listing 10.14 for the granting of performance rights to any executive directors, in fact it is an Australian listing not a New Zealand listing requirement that this is put before shareholders at all. The explanatory statement accompanying your Notice of Meeting provides details of the value of rights to be granted to Xavier on the basis of that grant.

40 We are going to have a poll on this, we just think it is appropriate that we have a full poll, so it is as comprehensive as can be and we are also going to have more discussion.

45 But I will put the motion with the approval of the grant of the performance rights, as detailed in the Notice of Meeting. We are then

going to move to a poll after any discussion. So can I now ask for any questions or further discussion.

5 I do appreciate this has been quite comprehensively canvassed at the time of Mr Holland's re-election, so perhaps let us not go over the same ground, but if there are new issues or items that people would like to raise, happy to hear them now.

10 MR SMITH: Thank you Mr Chairman. First of all let me say that the New Zealand Shareholders Association actively supports Mr Simonet's appointment as CEO. We consider him to be an extremely appropriate person, and we believe that he has got a great future with this company. From what he said earlier on and from what we were able to assess from research we did earlier, he is definitely the right man for the job.  
15 We welcome you on board Xavier, we wish you well, and that's coming from all of us here.

20 With regard to this resolution, we do believe that you should get an incentive, and we look forward to you getting that, but in the appropriate way. And I know that the Board has changed its stance as a result of your release yesterday to the medium.

25 However, the resolution that we are speaking to today does not say what you said yesterday. And although we accept that that is the way it is, this association will be supporting that resolution but we have things to say about it.

30 We want you to be well aware that we are not interested in being fobbed off with anything. Trust us, we know what we are doing. We want you to make it very clear that you are going to do that and that what you put out yesterday is binding. We know it is, you know it is but we have to say it, and we expect you to do that.

35 **[11.51 am]**

40 Now secondly, by getting things wrong in the first place and delaying the remedies, you have removed the opportunity for many shareholders to alter their votes, which is a fundamental right. Now that situation is perhaps not quite so relevant but in our opinion you owe the shareholders of this company an apology for that because it was your ineptness that brought that situation about, consider that, I think you should.

45 What remedial action has the board taken to ensure that this type of inept action will not happen again? Now I am sure Mr Holland has addressed that, but I want you to do it too.

MR KIRK: Okay, well the remedial action is of course to make sure that we have a more structured review of exactly how the mechanism, the vesting criteria will work. So what we will now put into our Annual Remuneration Committee Work Programme, is a specific agenda item on a specific board or Remuneration Committee Meeting in the lead up to this meeting to specifically go through and review the way in which the allocations and the vesting rights will work, and then to crosscheck that those outcomes deliver alignment between senior management motivation or Chief Executive motivation and incentive and shareholder value alignment.

MR SMITH: Yes, okay, well fair enough. As I said, our association will be supporting this motion and we are wishing Xavier all the very best for what he is.

Well I would perhaps say, just at this point, that in such issues like this I will ask the question, before you come up with a resolution which might be in anyway controversial, you are welcome to contact my association and speak to them about it and get our view on it – many companies do, we have about 20-30 major companies, including all of those in the top 50 who do, do that, you're welcome to come do that.

And secondly I would say this, that you should welcome any approach from us, if you do have a resolution which we have questions with, in order that it be sounded out at our level to ensure that anything which is controversial is bounced around in such a way as to be corrected – if that in fact is necessary, but in terms of the vote we will be supporting this resolution.

MR KIRK: All right, thank you for your offer to support and to discuss things in the future.

MR SMITH: Yes.

MR KIRK: Is there any further discussion?

DR TILLMAN: One very simple little question of our new CEO, your first name, sir?

MR SIMONET: Yes.

DR TILLMAN: Xavier?

MR SIMONET: Yes.

DR TILLMAN: And that in English is?

MR SIMONET: Xavier?

5 DR TILLMAN: It is?

MR KIRK: Xavier.

MR SIMONET: Xavier.

10

MR KIRK: Yes, Xavier.

DR TILLMAN: Xavier, we are looking at a turnaround.

15 MR SIMONET: Thank you.

MR KIRK: Okay. Are there any further questions?

20 All right, we will now move to the poll and this is a process whereby  
people need Sorry? Put them in the motion, the poll will include –  
please complete your voting cards, you will have a voting card you  
came in with. You only need to complete the card for item 4, but  
please determine how you would like to vote and those cards will need  
25 to be collected, and here we are with a ballot box and then we will  
count those –we can do it very quickly so we will do it before we get to  
the cup of tea, I know it is dangerous between shareholders and a cup  
of a tea at the end of a longish meeting, but we will do it as quickly as  
we can.

30 I am just thinking, I mean I think you made the point Max in your  
discussion, and you pointed out, you know we were very late and we  
did not allow people to change, and that is clearly regrettable and it is,  
you know part of the mistake that we have been absolutely up front  
about owning up to.

35

But I am sure to make it very clear the reality is, notwithstanding that  
we are voting on a motion that does set a particular scale of vesting, the  
board always retains the right and the flexibility to change that vesting  
scale, and the press release we put out yesterday changed that vesting  
40 scale from 10-15 percent to 17.5 percent-22.5 percent compound  
annual EPS growth required for the vesting of those options.

**[11.56 am]**

45 So because we are voting on something that is different it does not  
mean that that is going to be implemented, the board always has the

discretion and the right to change the vesting scale and that is exactly what we have said publicly and published and that is exactly the way it is going to be so you can feel very comfortable with the outcome.

5 And again, as Max said and other shareholders have said, they are now comfortable with that vesting scale, so I think – I just want to make it very clear that even though it is a bit of an odd situation to be voting on something that is not actually going to be the thing that is put in place, you can be comfortable as shareholders of what is going to be put in place is what we put out in the press release yesterday.

MR SMITH: Yes, well that is an assured situation and we quite agree with you, stick to it, but it should never have had happened in the first place really.

15 MR KIRK: Yes, Max, you have made that point and I think the – and I may be just kind of kicking a dead cat at the moment.

MR WALPOLE: Can I make a comment?

20 MR KIRK: Yes please.

MR WALPOLE: It seems that the thing has fallen over because the scheme was set in place before you know what the 2015 result was. - - -

25 MR KIRK: Yes, this - - -

MR WALPOLE: In this case it would seem better to return the scheme in place which is based on historical figures which you already know about or else on an average value or something from the previous five years or whatever. But to base it on a year which you do not know the result for, is obviously setting a trap.

35 MR KIRK: Yes, the actual scheme itself with its rolling issues of equity with a starting point which is the beginning of every three years, that is how the scheme works, and then over a three year period you have to get a certain earnings per share growth rate for the equity to vest, and that seems and is very fair and indeed very standard, and so that changes every year so you sort of in a way get an average of the total equity issued is over a different period of different starting points.

40 So there is nothing wrong with that and John Holland made this point and I think it was acknowledged, there is nothing wrong with the scheme per se at all, it is just that because we had this very steep dip in earnings in this year that makes a very abnormal starting point, and we should have picked it up, we should have realised that that means there

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is effectively a low hurdle in going forward, and so we had to either make the starting point higher or increase the percentage return delivered from that starting point for the equity to vest.

5 So it is actually quite a simple – the structure is good, it is quite a simple fix, so long as you pick it up, and that is what we did not do earlier.

Sorry, there is just someone down here?

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MR MURPHY: Grant Murphy's my name, individual shareholder, just a bit of a different question, probably a loaded question; you have brought Xavier in with very, very high credentials but just sitting here in other AGMs I have been to, you just get the impression that, how much support is Xavier going to get?

15

It sounds like you brought the man in and, you just get an impression that you put the weight of the whole company on this person's shoulders. It is a loaded question, can it be answered?

20

MR KIRK: Yes, no I am very happy to give you that. I mean the reality is and I have been in the same position that Xavier is in, the Chief Executive is responsible and is the person who's ultimately responsible for the day to day operating performance of the company. He is not responsible solely by any means for the strategy of the company. He of course uses all of his resources and all of his experience to bring strategies forward to the board but the board debates those strategies, tries to help in improving them and together the Chief Executive and Xavier's an executive director so he's a director as well, together the board as a whole, is committed to that strategy in taking the company forward.

30

So there is a real shared accountability in terms of the strategy, although of course the Chief Executive needs to make his appointments and needs to work with his team and needs to deliver the earnings within the sort of the canopy of the strategy. That is the way boards and executives work and it works pretty well.

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[12.01 pm]

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Just to dispel any doubt whatsoever, I hope there is not any, the board is extremely supportive of Xavier and the board is responsive; Xavier asked for assistance, the board is very responsive in supporting him and we will do everything we can to help him succeed and succeed on behalf of you.

45

MR KIRK: What is that sorry?

DR TILLMAN: Asked the question of – or make the comment – there’s a pregnant silence.

5

MR KIRK: Yes, brief, I think probably brief would be nice.

DR TILLMAN: Just while we are having a pregnant silence, I thought maybe I would ask the CEO; when I was in England some years ago there was a firm called Burtons, a tailoring group, and they had a problem with stores having too many items that were out of date, so they decided to have, I think it was two companies, one was in London and one was in Leeds I think – somewhere in the north of England – and all the things that were no longer in the catalogue were sent to these two warehouses and were sold, and the turnover was incredible.

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15

As a Summit Club member, I get confused going to shops in Auckland and here in Christchurch, that a lot of the things are, you like something and it is old stock and you cannot get a replacement. If it was taken out of my hands and gone to Heathcote or something like that or somewhere in Auckland, then I think it would be easier for people going to shops to be able to look, especially people like myself.

20

MR KIRK: Okay, it looks like we got the results – thank you for that question – do you want to answer that very quickly?

25

DR TILLMAN: It’s just an idea.

MR SIMONET: Yes, I am not sure it’s a question actually, it’s more - - -

30

MR KIRK: Okay, it’s almost done – no, well thanks Dr Tillman.

MR SIMONET: Thank you.

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DR TILLMAN: Was only filling time.

MR SIMONET: Thank you for helping.

MR KIRK: So we have the results and I can say that 89,846,151 votes were cast in favour of the resolution which was 92.8% of the votes cast, so thank you all for the support.

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I am presuming there are no other questions – we have had great discussion and questions today, but ladies and gentlemen that now concludes the formalities, I really do thank you all very much for coming along today, it is great to have a good shareholders meeting

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with plenty of shareholders here, and I also thank you very much for your continued support of the company.

5 We have got a great Chief Executive, we have started the year very solidly, and I now declare the meeting closed and invite you to join us for a cup of tea and sandwich, thank you.

**ADJOURNED**

**[12.05 pm]**