



KATHMANDU HOLDINGS LIMITED

**ASX/NZX/Media Announcement
24 September 2010**

**Kathmandu Holdings announces first full year result as
listed company:**

NZ\$ DENOMINATED RESULT

- Sales up 14% to NZ\$245.8m,
- EBIT up 12.4% to NZ\$47.9m (excluding IPO costs),
- NPAT up NZ\$10.3m to NZ\$25.2m (excluding IPO costs)

AU\$ DENOMINATED RESULT:

- Sales up 12% to A\$196.6m,
- EBIT up 10.4% to A\$38.3m (excluding IPO costs),
- NPAT up A\$8.1m to A\$20.2m (excluding IPO costs)

FIRST DIVIDEND NZ 7.0 cents per share

Kathmandu Holdings Limited (ASX/NZX:KMD) today announced a 12.4% increase in Earnings before interest and tax (EBIT) to NZ\$47.9 million, excluding the one-off costs associated with its initial public offering (IPO) of shares in November 2009. Net profit after tax (NPAT), increased from NZ\$14.9 million last year to NZ\$25.2 million for the year ended 31 July 2010, excluding the \$15.8m of one-off IPO costs and associated tax deductions.

Kathmandu Holdings Limited Chief Executive Officer, Peter Halkett, said Kathmandu had achieved a substantial improvement in sales and profit over last year's result. "We have grown sales and profit despite the well publicised difficult economic environment and the resulting impact on consumer demand in all our markets. We opened 15 further stores during the year and believe Kathmandu continues to have excellent growth opportunities. Given reasonably stable economic conditions we expect to again achieve improved results in the year ahead," said Mr Halkett.

RESULTS OVERVIEW

Full Year Ending 31 July 2010	NZ \$m		Growth	
	FY10	FY09	NZ \$m	%
Sales	245.8	215.6	30.2	14.0%
EBITDA ¹	53.9	48.2	5.7	11.8%
EBIT ¹	47.9	42.6	5.3	12.4%
NPAT ²	25.2	14.9	10.3	69.1%
NPAT	9.4	14.9	(5.5)	-36.9%

¹Excluding IPO costs

² Excluding IPO costs and associated tax deductions

The reported FY10 result adjusted to compare with the pro-forma FY10 result detailed in Kathmandu's prospectus is provided below. Specifically the reported result for FY10 is adjusted for the estimated change in expenses that would have occurred in the period from 1 August 2009 to date of the IPO had the Group operated under the current public company structure rather than the previous private equity ownership. The adjustments are:

- Estimated increase in net operating costs (primarily public company costs) for the period (+\$0.4m);and
- Estimated reduction in finance costs for the period from the payback of \$85.7m of debt out of the IPO proceeds (-\$2.8m).

Full Year Ending 31 July 2010	NZ \$m		Difference	
	Actual	Prospectus	NZ \$m	%
Sales	245.8	240.0	5.8	2.4%
EBIT ¹	47.5	50.6	(3.1)	-6.1%
NPBT pro-forma ²	41.2	44.8	(3.6)	-8.0%

¹Excluding IPO costs

² Excluding IPO costs, adjusting for new debt levels and listed company costs

Other key highlights from the FY10 results include:

- Sales growth of more than 10% in all three countries Kathmandu trades in,
- Same store sales growth of 1.3%,
- Fifteen stores opened, ten in Australia and five in New Zealand.

Kathmandu Holdings Limited Chief Executive Officer, Peter Halkett, said the strong first half trading to 31 January was followed throughout most of 2010 by a challenging economic environment in all three countries Kathmandu trades in. "We were able to maintain double digit sales growth in all our markets. This was achieved despite negative same store sales performance in our second half year when general consumer confidence and spending were down on the previous year," said Mr Halkett.

SALES, STORE NUMBERS AND GROSS PROFIT MARGIN

Full Year Ending 31 July 2010	NZ \$m FY10	% of Total	Total Sales Growth %	Same store ¹ Growth %	Number of New Stores
Sales - New Zealand	94.3	38.4%	10.8%	0.6%	5
Sales - Australia	141.9	57.7%	15.2%	0.8%	10
Sales - United Kingdom	9.6	3.9%	16.7%	5.8%	0
Total	245.8	100.0%	14.0%	1.3%	15

¹ Same store growth 0.9% at constant exchange rates

Peter Halkett noted that “As we commented at the half year, we were cycling against a strong previous year’s trading period in our second half, in a retail environment that appeared generally variable and uncertain. It transpired that third quarter trading was adversely affected by both cycling the prior year Australian Government stimulus measures, and generally unfavourable warm weather during our Easter sale promotion. In the final quarter winter sales season same store sales performance in Australia was similar to last year, whilst New Zealand was below our expected sales targets. In New Zealand real consumer spending has reduced in the second half year, and in Australia sales were supported with higher than anticipated levels of promotional activity. UK trading generally met expectations and the small loss from that operation is similar to the previous year.”

Stores open 31 July	FY10	FY09
New Zealand	36	31
Australia	55	45
United Kingdom	6	6
Total Group	97	82

Kathmandu opened seven new stores in the second half year (following eight in the first half year and compared to two in the second half of FY09). The stores opened were:

- New Zealand: Tauranga, Gisborne and Hastings.
- Australia: Ballarat, Adelaide Tea Tree, Adelaide Harbour Town and Fremantle.

In addition, the Christchurch City Store was relocated to the Cashel Street Mall, and the Brisbane City Store was relocated to the Queens Mall precinct.

In total there were fifteen new stores opened in the year, three more than was anticipated in the prospectus. In the FY11 year four new stores are already confirmed to open and two further sites are under negotiation, all in Australia. Most of this year’s planned fifteen new stores will be opened in Australia, with three stores targeted in New Zealand. No further new stores are planned for the U.K. this financial year.

	ACTUAL	PROSPECTUS
Full Year Ended 31 July 2010	FY10	FY10
Gross profit margin %	63.2%	64.0%

Gross profit margin was down 120bps on last year and 80bps on prospectus forecast, reflecting both the product mix between equipment and apparel and the result of promotions and pricing levels across the year.

OPERATING COSTS

Operating Expenses excluding depreciation and IPO costs	NZ \$m & % of Sales	
	FY10	FY09
Rent	25.6m	23.1m
% of sales	10.4%	10.7%
Other Operating costs	75.8m	67.5m
% of sales	30.8%	31.3%
Total	101.4m	90.6m
% of sales	41.3%	42.0%

Kathmandu's operating expenses reduced by 70 bps as a % of sales, reflecting operating leverage achieved from a stronger growth rate in sales compared to key operating costs. There were increases in expenses over the year in response to changing business circumstances, in particular to support the higher number of new stores opened and the promotional activity undertaken over the second half of the year.

The reduction in Gross Profit margin was partially offset by this decrease in operating expenses as a % of sales. The resulting EBITDA margin (excluding IPO costs) decreased from 22.4% to 21.9% and EBIT margin (excluding IPO costs) similarly decreased from 19.8% to 19.5%.

OTHER FINANCIAL INFORMATION

Full Year Ended 31 July 2010	NZ\$ m	
	FY10	FY09
Operating Cashflow	32.6	24.7
Capital Expenditure	(13.6)	(8.1)
	19.0	16.6
Inventories	37.4	39.6
Net Debt (including cash)	49.3	155.7
Net Debt: Net Debt + Equity	17.1%	54.0%
Dividend proposed (cents per share)	7 cents	n/a

Capital expenditure was higher than the prospectus forecast of NZ\$12.6 million due to a larger than forecast store rollout (15 stores actual compared to 12 stores forecast).

Total inventories reduced by NZ\$2.2 million, and by 20% on a \$ per store basis. Mr Halkett commented that "The reduced level of stock available to sell in our winter

trading period that followed on from our strong first half year sales performance did result in some lost sale opportunities in the second half year. This is being addressed by enhanced inventory systems.”

Operating and Investing cashflow increased by NZ\$2.4 million for the year, despite the \$5.5 million increase in capital expenditure and the pre-IPO debt servicing costs under the previous capital structure.

DIVIDEND

The Board is pleased to advise the first dividend will be 7 cents per share, an increase on the 6.7 cents forecast in the prospectus. Kathmandu Chairman James Strong said that “this payout, supported by our strong operating cashflows and representing an approximate payout ratio of 55% of ongoing NPAT, is within the range targeted by the Company in the future.”

FUTURE YEAR OUTLOOK

Peter Halkett concluded by saying that “Kathmandu is confident that given reasonable economic conditions there will be further improvement in profitability in the year ahead. The impact of the economic environment on consumer confidence, and cost pressures both domestically and internationally are a challenge, however given our market position and brand strength we remain well placed to continue our growth. This will be underpinned in the year ahead by:

- Our ongoing new store rollout programme. 4 new sites in Australia are already confirmed thus far in FY11;
- Second year sales growth of stores opened during FY10;
- Accelerated expansion of the product range; and
- Our programme for refurbishing and relocating existing stores.

We continue to target a total store network of at least 150 locations in Australia and New Zealand, and we will explore further opportunities for expansion in these markets as they arise.”

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