KATHMANDU HOLDINGS LIMITED (ARBN 139 836 918)

KATHMANDU

LIVE THE DREAM®

PROSPECTUS

INITIAL PUBLIC OFFERING OF ORDINARY SHARES

JOINT LEAD MANAGERS

Goldman Sachs JBWere

MACQUARIE

IMPORTANT NOTICE

OFFER

The Offer contained in this Prospectus is an invitation by Kathmandu Holdings Limited ("Company" or "Kathmandu") to apply for fully paid ordinary shares in the Company ("Shares").

LODGEMENT AND LISTING

This Prospectus is dated 19 October 2009 and a copy was lodged with ASIC on 19 October 2009.

The Company will apply within seven days after the date of this Prospectus to ASX for admission of the Company to the official list of ASX and quotation of its Shares on ASX. Neither ASIC nor ASX takes any responsibility for the content of this Prospectus or for the merits of the investment to which this Prospectus relates.

Further, application has been made to NZX for permission to list the Shares and all of the requirements of NZX relating thereto that can be complied with on or before the date of this Prospectus have been duly complied with. However, NZX accepts no responsibility for any statement in this Prospectus.

EXPIRY DATE

No Shares will be offered on the basis of this Prospectus later than the Expiry Date, being 13 months after the date of this Prospectus.

NOTE TO APPLICANTS

The information in this Prospectus is not financial product advice and does not take into account your investment objectives, financial situation or particular needs. It is important that you read this Prospectus carefully and in its entirety before deciding whether to invest in the Company. In particular, you should consider the assumptions underlying the Forecast Financial Information and the risk factors that could affect Kathmandu's business, financial condition and results of operations. You should carefully consider these risks in light of your personal circumstances (including financial and tax issues) and seek professional guidance from your accountant, stockbroker or other professional adviser before deciding whether to invest. Key risk factors that should be considered by prospective investors are set out in Section 9.

NO OFFERING WHERE OFFERING WOULD BE ILLEGAL

The offer of Shares under this Prospectus does not constitute a public offer in any jurisdiction outside Australia and New Zealand. This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to permit otherwise a public offering of the Shares in any jurisdiction outside Australia and New Zealand. This Prospectus has been prepared for publication in Australia and New Zealand and may not be released or distributed in the United States. This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. The Shares have not been, and will not be, registered under the US Securities Act 1933 as amended ("US Securities Act"), and may not be offered or sold in the United States, except in a transaction exempt from, or not subject to, registration under the US Securities Act and applicable US state securities laws. The distribution of this Prospectus outside Australia and New Zealand may be restricted by law and persons who come into possession of this Prospectus outside Australia and New Zealand should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. For details of selling restrictions that apply to the Shares in certain jurisdictions outside of Australia, please refer to Section 10.14 for further information.

SPECIAL CONSIDERATIONS FOR NEW ZEALAND INVESTORS

The Offer is being extended to New Zealand investors under the mutual recognition regime applicable to public offers of securities in Australia and New Zealand. Any New Zealand investor considering this Prospectus should be aware that there are considerations particular to you. Some (but not all) of them are described throughout this Prospectus or referred to under this 'Important notice' and under 'INFORMATION FOR NEW ZEALAND INVESTORS'.

A copy of this Prospectus and other documents relating to the Offer have been, or will be, lodged with the New Zealand Companies Office under the mutual recognition regime.

FINANCIAL INFORMATION PRESENTATION

The pro forma Historical Financial Information included in this Prospectus for FY2007, FY2008 and FY2009 has been prepared and presented in accordance with the recognition and measurement principles prescribed in the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

This Prospectus includes forecast financial information based on the best estimate assumptions of the Directors. The basis of preparation and presentation of the Forecast Financial Information, to the extent relevant, is consistent with the basis of preparation and presentation for the Historical Financial Information. The Forecast Financial Information presented in this Prospectus is unaudited.

The Historical Financial Information and the Forecast Financial Information in this Prospectus should be read in conjunction with, and they are qualified by reference to, the information contained in Section 7.

DISCLAIMER

No person is authorised to give any information or to make any representation in connection with the Offer described in this Prospectus which is not contained in this Prospectus. You should rely only on information in this Prospectus.

Except as required by law, and only to the extent so required, neither Kathmandu nor any other person warrants or guarantees the future performance of Kathmandu, or any return on any investment made pursuant to this Prospectus.

This Prospectus contains forward looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'expects', 'intends' and other similar words that involve risks and uncertainties.

The Company has no intention to update or revise forward looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

Any forward looking statements are subject to various risk factors that could cause Kathmandu's actual results to differ materially from the results expressed or anticipated in these statements. Key risk factors are set out in Section 9. These and other factors could cause actual results to differ materially from those expressed in any forward looking statement made by, or on behalf of, Kathmandu.

EXPOSURE PERIOD

The Corporations Act prohibits Kathmandu from processing Applications in the seven day period after the date of lodgement of this Prospectus ("Exposure Period") with ASIC. The Exposure Period may be extended by ASIC by up to a further seven days. The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of funds. Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on any Applications received during the Exposure Period.

During the Exposure Period, this Prospectus will be made generally available to Australian and New Zealand residents, without the Application Forms, at Kathmandu's website, www.kathmanduholdings.com.

OBTAINING A COPY OF THIS PROSPECTUS

A paper copy of the Prospectus is available free of charge to any person in Australia or New Zealand by calling the Kathmandu Offer Information Line on 1800 190 082 (within Australia) or 0800 767 556 (within New Zealand) between 8:30am and 5:30pm Australian Eastern Daylight Time ("AEDT")/New Zealand Daylight Time ("NZDT") Monday to Friday.

This Prospectus is also available in electronic form at www.kathmanduholdings.com. This Prospectus is only available in electronic form to Australian and New Zealand residents accessing the website from Australia or New Zealand. Persons who access the electronic version of this Prospectus should ensure that they download and read the entire Prospectus.

Applications for Shares may only be made on the appropriate Application Form attached to or accompanying this Prospectus. The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

DEFINED TERMS AND ABBREVIATIONS

Certain terms and abbreviations used in this Prospectus are defined in Section 11. Unless otherwise stated or implied, references to times in this Prospectus are to Australian Eastern Daylight Time ("AEDT").

AMOUNTS

All financial amounts contained in this Prospectus are expressed in New Zealand currency unless otherwise stated. See Section 7.2.1 for further information.

Any discrepancies between totals and sums and components in tables contained in this Prospectus are due to rounding.

PHOTOGRAPHS AND DIAGRAMS

Photographs and diagrams in this Prospectus do not necessarily depict assets or equipment owned or used by Kathmandu. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

REFERENCES TO STORE NUMBERS

References in this Prospectus to numbers of Kathmandu stores are references to the number of Kathmandu stores open as at 31 July 2009 unless otherwise indicated. Store numbers exclude temporary stores and New Zealand mail order sales. Between 1 August 2009 and the date of this Prospectus, Kathmandu opened three further stores.

COMPANY WEBSITE

Any references to documents included on Kathmandu's website are provided for convenience only, and none of the documents or other information on the website is incorporated by reference.

PRIVACY

By completing an Application Form, you are providing personal information to the Company through the Share Registry, which is contracted by the Company to manage Applications. The Company, and the Share Registry, on the Company's behalf, collect, hold and use that personal information to process your Application, service your needs as an investor, provide facilities and services that you request and carry out appropriate administration. The Company and tax laws require some of the information to be collected. If you do not provide the information requested, your Application may not be able to be processed efficiently, if at all.

The Company and the Share Registry may disclose your personal information for purposes related to your investment to their agents and service providers including those listed below or as otherwise authorised under the Privacy Act 1988 (Cth) and the Privacy Act 1993 (NZ):

- the Share Registry for ongoing administration of the Share register;
- the Joint Lead Managers in order to assess your Application;
- printers and other companies for the purposes of preparation and distribution of documents and for handling mail;
- market research companies for the purpose of analysing the Company's shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

You may request access to your personal information held by or on behalf of the Company. You can request access to your personal information or obtain further information about Kathmandu's privacy practices by contacting the Share Registry or Kathmandu. Kathmandu aims to ensure that the personal information it retains about you is accurate, complete and up-to-date. Please contact Kathmandu or the Share Registry if any of the details you have provided change.

In accordance with the requirements of the Corporations Act, information on the Share register will be accessible by members of the public.

INFORMATION FOR NEW ZEALAND INVESTORS

This Offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act and its Regulations.[1]

In New Zealand, this is Part 5 of the Securities Act 1978 (NZ) and the Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008 (NZ).

This Offer and the content of the Offer document are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act and its Regulations (Australia) set out how the Offer must be made.

There are differences in how securities are regulated under Australian law. For example, the disclosure of fees for collective investment schemes is different under the Australian regime.

The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities.

Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to the Offer. If you need to make a complaint about this Offer, please contact the Securities Commission, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian securities is not the same as for New Zealand securities.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

If the securities are able to be traded on a securities market and you wish to trade the securities through that market, you will have to make arrangements for a participant in that market to sell the securities on your behalf. If the securities market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the securities and trading may differ from securities markets that operate in New Zealand.

If you expect the securities to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

The Final Price is to be set in Australian dollars. The Offer may involve currency exchange risk. The currency for the securities is not New Zealand dollars. The value of the securities will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant.

SYNDICATE STRUCTURE

The Joint Lead Managers to the Offer are Goldman Sachs JBWere and Macquarie Capital Advisers. The Organising Participants to this Offer are Goldman Sachs JBWere (NZ) Limited and Macquarie Securities (NZ) Limited. The Co-Managers to the Offer are First NZ Capital Securities Limited in New Zealand, and Commonwealth Securities Limited in Australia.

QUESTIONS

If you have any questions in relation to the Offer, please contact the Kathmandu Offer Information Line on 1800 190 082 (within Australia) or 0800 767 556 (within New Zealand) between 8:30am and 5:30pm AEDT/NZDT Monday to Friday.

Notes:

1. This is the Chapter of the Corporations Act providing for offers to Australian investors of securities issued in New Zealand under the Securities Act 1978 (NZ) pursuant to the mutual recognition regime. This Prospectus is prepared under Chapter 6D of the Corporations Act.

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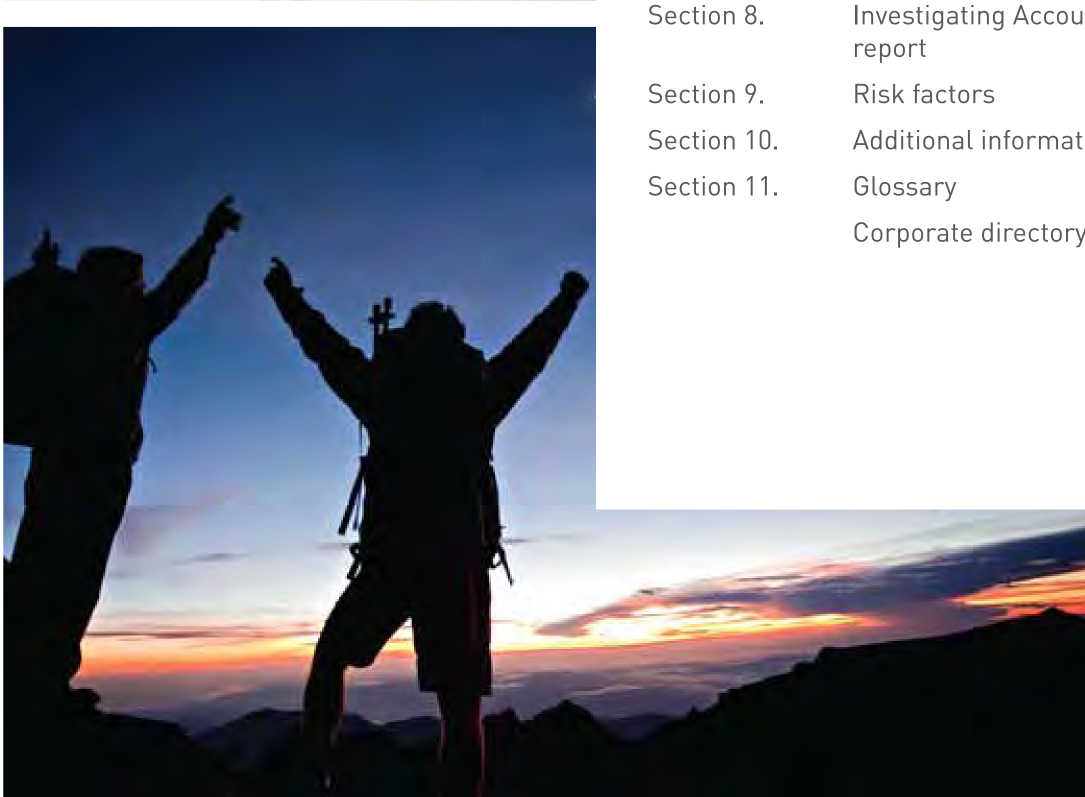
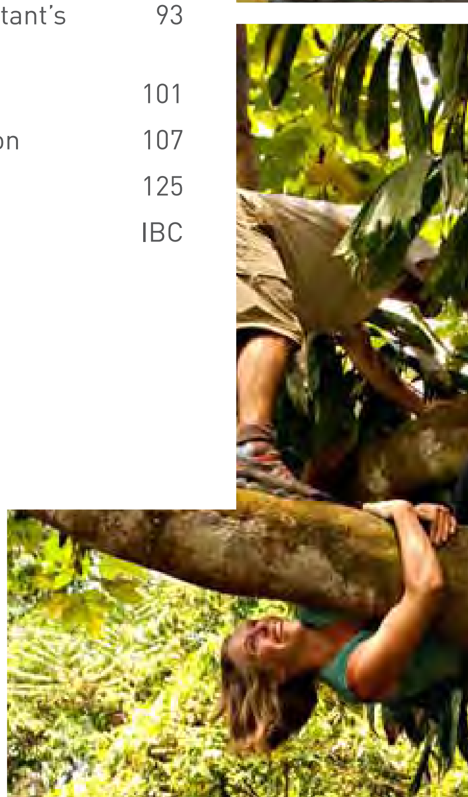




KATHMANDU STORE 09 – CANBERRA, AUSTRALIA

KEY OFFER INFORMATION

Key dates	Date
Prospectus date	Monday, 19 October 2009
Retail Offer opens	Tuesday, 27 October 2009
Retail Offer closes	5:00pm AEDT/NZDT, Friday, 6 November 2009
Institutional Offer and Institutional Bookbuild opens	Tuesday, 10 November 2009
Institutional Offer and Institutional Bookbuild closes	Wednesday, 11 November 2009
Pricing and allocation announced	Thursday, 12 November 2009
Institutional Offer settlement	Tuesday, 17 November 2009
Shares expected to begin trading on a deferred settlement basis on ASX and on a normal basis on NZX	Wednesday, 18 November 2009
Expected despatch of holding statements and any refund payments if required	Thursday, 19 November 2009
Shares expected to begin trading on a normal settlement basis on ASX	Friday, 20 November 2009

Notes:

This timetable is indicative only. Kathmandu, the Joint Lead Managers and the Milford Fund Shareholders reserve the right to vary the times and dates of the Offer, including to close the Offer early or to accept late Applications, without notifying any recipient of this Prospectus or any Applicants. Applicants are therefore encouraged to submit their Applications as early as possible.

SUMMER 09 – BORNEO

KEY OFFER INFORMATION

KEY OFFER STATISTICS	A$[1]	NZ$
Indicative Price Range[2]	$1.65 – $1.90	$2.01 – $2.32[3]
Total number of Shares available to investors under the Offer[4]	166.9 – 197.4 million	166.9 – 197.4 million
Total number of Shares on issue on completion of the Offer	200.0 million	200.0 million
Gross proceeds of the Offer[5]	$277.7 – $374.9 million	$338.6 – $457.2 million
Indicative market capitalisation	$330.0 – $380.0 million	$402.4 – $463.4 million
Pro forma net debt (as at 31 July 2009)	$57.4 million[6]	$70.0 million
Enterprise value	$387.4 – $437.4 million	$472.4 – $533.4 million

SELECTED FINANCIAL INFORMATION[7]	A$		NZ$	
(All figures in millions, except per Share information)	Historical FY2009	Forecast FY2010	Historical FY2009	Forecast FY2010
Sales	175.5	196.8	215.6	240.0
Pro forma EBITDA	40.4	46.8	49.6	57.1
Pro forma EBIT	35.9	41.5	44.1	50.6
Pro Forma NPAT		25.3		30.9
Pro forma FY2010 Earnings per Share[8]		12.7 cents		15.4 cents
FY2010 dividend per Share[8,9]		5.5 cents		6.7 cents

INVESTMENT METRICS	A$1.65	A$1.90
EV/pro forma FY2010 EBITDA	8.3x	9.3x
EV/pro forma FY2010 EBIT	9.3x	10.5x
Price/pro forma FY2010 Earnings per Share[8]	13.0x	15.0x
Payout ratio[10]	55%	55%
FY2010 Dividend yield[9,10]	3.3%	2.9%

Notes:

1. Kathmandu presents its financial statements in NZ$. For illustrative purposes only selected Financial Information denoted in A$ has been included in this Prospectus. Refer to Section 7.2.1 for further information on the calculation of this information.
2. The Indicative Price Range is indicative only. The Final Price will be set in A$ after the conclusion of the Institutional Offer and may be within, above or below this range. The Indicative Price Range may be varied at any time by agreement of the Joint Lead Managers and the Milford Fund Shareholders.
3. The Indicative Price Range in NZ$ has been calculated from A$ prices using an exchange rate of 0.82 for illustrative purposes only. The Final Price for New Zealand investors applying under the Retail Offer (the Final Price NZ$) will be calculated by converting the A$ Final Price into NZ$ at the applicable exchange rate on the Institutional Offer Closing Date. The A$/NZ$ exchange rate used to calculate the Final Price NZ$ is likely to differ from that used to calculate the Indicative Price Range in NZ$. Refer to Section 3.4.2 for further information on the calculation of the Final Price.
4. Assumes in the first instance the Milford Fund Shareholders elect to take 20% (being the highest potential proportion) of the proceeds payable to them for their Milford Shares in Shares and a Final Price of A$1.90, and in the second instance no Shares and a Final Price of A$1.65. The actual number of Shares available to investors under the Offer may be below, within or above this range. For further information refer to Section 3.3.
5. Assumes in the first instance the Milford Fund Shareholders in effect elect to take 80% (being the lowest potential proportion) of the proceeds payable to them for their Milford Shares in cash and a Final Price of A$1.65, and in the second instance 100% (being the highest potential proportion) and a Final Price of A$1.90. The actual amount of proceeds may be below, within or above this range. For further information refer to Section 3.3.
6. Net debt in A$ converted from NZ$ based on exchange rate of 0.82 for illustrative purposes only.
7. Summary pro forma historical and forecast financials. Refer to Section 7.3 for further information including reconciliation to the statutory results.
8. Based on the total number of Shares to be on issue on completion of the Offer (i.e. 200 million).
9. Note that FY2010 dividends are expected to be paid with respect to earnings generated in the second half of FY2010 only. Refer to Section 1.3 for information on dividends. The dividend has not been annualised in dollar value or in terms of its yield.
10. Based on the midpoint of the Company's dividend policy to distribute between 50% – 60% of NPAT. Subject to change, refer to Section 7.14.

Kathmandu and its LIVE THE DREAM® brand essence resonate with customers' aspirations of travel and adventure.

WINTER 09 – NEW ZEALAND

LETTER FROM THE CHAIRMAN

19 October 2009

Dear Investor,

On behalf of the Directors, it is my pleasure to invite you to become a shareholder of Kathmandu Holdings Limited.

Since its founding in 1987, the Kathmandu business has steadily grown, developing its brand and value through a commitment to providing quality clothing and equipment for travel and adventure through its company-operated stores.

Kathmandu's business model has seen it become a leader in its category across Australia and New Zealand with sales of approximately NZ$240 million and pro forma EBITDA of NZ$57.1 million forecast in FY2010, representing an increase of approximately 11% on FY2009 sales and 15% on FY2009 pro forma EBITDA.

At the heart of Kathmandu's success is the recognition of its brand across Australia and New Zealand. Kathmandu and its 'Live the Dream' brand essence resonate with customers' aspirations of travel and adventure.

Kathmandu has developed a vertically integrated business model which gives the Company control of its brand and products – from its in-house design team in Christchurch, New Zealand, through to customer sales in an expanding network of company-operated retail stores.

Kathmandu had 82 stores at 31 July 2009 across Australia, New Zealand and the United Kingdom, with plans to open 12 new stores this financial year. A new model store has been developed, reflecting the spirit of the brand. The first new-look stores, located in Queenstown and Canberra, will be the basis for future store fitouts (see page two for photos of the Canberra store).

In 2006, the Kathmandu business was acquired from its founder by a consortium of funds managed by Goldman Sachs JBWere Principal Investment Area and Quadrant Private Equity. Over the past three and a half years, Kathmandu has invested significantly in new stores, IT systems, distribution centres and in its people to develop a platform designed to support future growth plans across Kathmandu's markets. With an experienced management team led by Chief Executive Officer Peter Halkett, who has been at the helm for the past three years, and Chief Financial Officer Mark Todd, who has more than 10 years experience with Kathmandu, the Directors believe that the Company is well positioned to deliver attractive financial results for its Shareholders.

A listing on each of ASX and NZX will provide the Company with access to listed equity markets and growth flexibility and allow employees and public market investors the opportunity to invest in a successful business. Funds raised from the Offer will be used to acquire the underlying Kathmandu business from its existing owners, the Milford Shareholders, reduce existing debt levels to pro forma net debt (as at 31 July 2009) of NZ$70 million and pay the Offer fees and expenses.

Detailed information about the Offer and Kathmandu's business, as well as some of the key risks of investing in Kathmandu, are set out in this Prospectus, which I encourage you to read carefully. Some of the key risks that Kathmandu may face include damage to Kathmandu's brand, aggressive competition, one or more sales promotions failing to reach set targets, or a deterioration of the retail environment more generally. See Section 9 for further information on the key risks of investing in Kathmandu.

To apply for Offer Shares, you will need to fill out and return the Application Form accompanying this Prospectus. If you have any questions about the Offer, please call the Kathmandu Offer Information Line on 1800 190 082 (within Australia) or 0800 767 556 (within New Zealand) between 8:30am and 5:30pm AEDT/NZDT Monday to Friday. This Offer is expected to close at 5:00pm AEDT/NZDT time on Friday, 6 November 2009.

The Board and senior management team are excited about the future for Kathmandu. On behalf of the Board, I commend the Offer to you and look forward to welcoming you as a Shareholder.

Yours faithfully,

James Strong

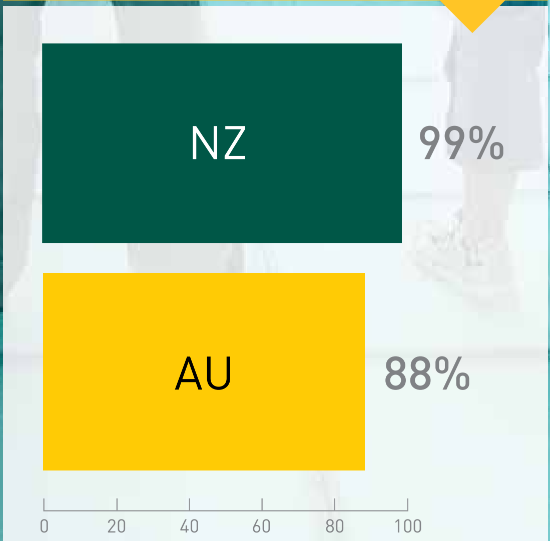
James Strong
Chairman

BRAND RECOGNITION

- **HERITAGE** – ESTABLISHED IN 1987, KATHMANDU HAS BEEN DEVELOPING ITS BRAND AND VALUE THROUGH A COMMITMENT TO PROVIDING QUALITY CLOTHING AND EQUIPMENT FOR TRAVEL AND ADVENTURE.
- **LIFESTYLE** – KATHMANDU'S TECHNICAL PRODUCTS, BRAND ATTRIBUTES AND POSITIONING HAVE PROVEN APPEALING TO A BROAD CONSUMER BASE.
- **BRAND AWARENESS** – AMONGST OUTDOOR ENTHUSIASTS, KATHMANDU IS THE #1 RECOGNISED OUTDOOR CLOTHING BRAND IN NEW ZEALAND AND AUSTRALIA ACCORDING TO THE LATEST GORE-TEX® BRAND SURVEY.[1]

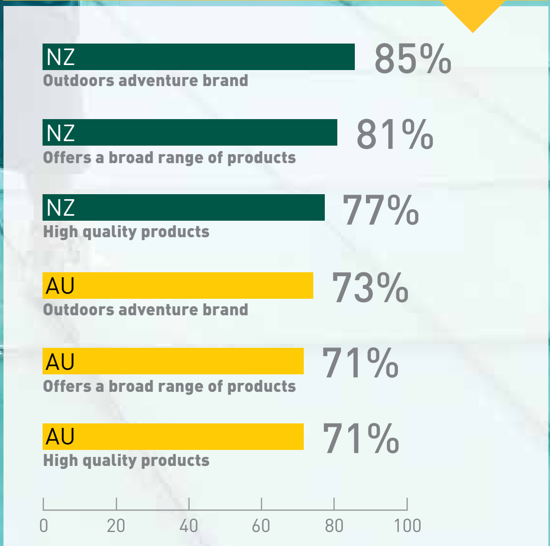
SUMMER 07 – PORTUGAL

KATHMANDU BRAND AWARENESS[1] AMONGST OUTDOOR ENTHUSIASTS



Source: GORE-TEX® brand survey June 2008 by W L Gore & Associates (Australia) Pty Ltd

KATHMANDU BRAND PERCEPTION[2] AMONGST OUTDOOR ENTHUSIASTS



Source: GORE-TEX® brand survey June 2008 by W L Gore & Associates (Australia) Pty Ltd

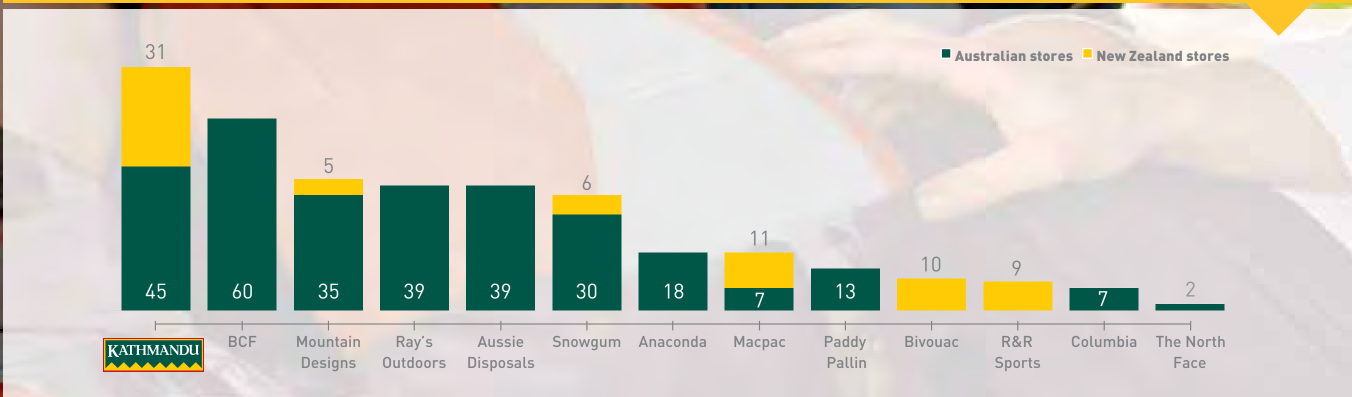
Notes:
1. 'Kathmandu brand awareness' comprises both unprompted recognition of the Kathmandu brand and recognition of the Kathmandu brand when prompted by the surveyor.
2. Figures represent percentage of respondents who agree or strongly agree with the question "To what extent do you agree with the following statements about the retailer Kathmandu and their products?"

INVESTMENT HIGHLIGHTS

AN AUSTRALIAN AND NEW ZEALAND **MARKET LEADER**

- **KATHMANDU** IS A LEADING PROVIDER OF QUALITY CLOTHING AND EQUIPMENT FOR THE TRAVEL AND ADVENTURE MARKET WITH THE LARGEST NUMBER OF RETAIL LOCATIONS IN THIS CATEGORY ACROSS AUSTRALIA AND NEW ZEALAND.

KATHMANDU HAS A LEADING POSITION IN AUSTRALIA AND NEW ZEALAND

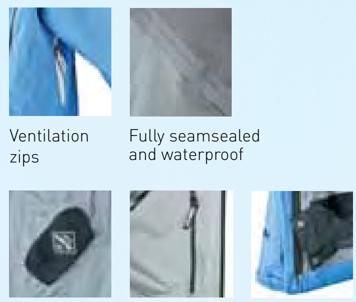


Note:
Kathmandu store numbers as at 31 July 2009, which excludes three stores that have since opened between that date and the date of this Prospectus and temporary stores. Other store numbers (approximate) as at 7 October 2009.

ALOPEX JACKET

ALPINE & HIKING JACKET

Top of the range GORE-TEX® jacket for alpine and hiking activities
GORE-TEX® Pro Shell 3-layer fabric with Gore Micro Grid Backer Technology and Extreme Wet Weather Construction.
Men's Alopex Jacket
Lapis, Black/S-XL, Size L: 620gm



Women's Alopex Jacket
Mango, Black
8-16, Size 12: 540gm

TECHNICAL PRODUCTS WITH **WIDE MARKET APPEAL**

▶ **KATHMANDU** OFFERS A WIDE RANGE OF PRODUCTS WITH TECHNICAL SPECIFICATIONS WHICH APPEAL TO A BROAD MARKET.

▶ **WINTER 09 – NEW ZEALAND**

INTERLOPER PACK

ADVENTURE HYBRID PACK

Large capacity, dual compartment hybrid pack for travel, trekking and bushwalking.

Shoulder Pads
Ergonomically shaped shoulder pads are joined via a yoke system for easy and even adjustment.

Hipbelts
Two part hipbelt allows the 'flare' of the hipbelt to be customised to fit different hip and waist shapes. Stud and velcro attachments allow the interchangeable hipbelts to be located evenly and securely.

Contoured Construction
Side profiler, pack shaping and aluminium stays combine to provide an ergonomically shaped platform for the harness components.

Back Padding
Laminated foam areas provide excellent load transfer with air mesh providing soft, breathable comfort in key areas.

Lumbar Pad
A critical area for load transfer due to the concave shape of the lower spine.

Hip Fins
Wrap the base of the pack onto the hipbones where the load bearing occurs and provide stability between the pack and the hipbelt.

INVESTMENT HIGHLIGHTS

DESIGN

KATHMANDU TARGETS CUSTOMER REQUIREMENTS AND CREATES PRODUCT WITH DIFFERENT LEVELS OF TECHNICAL FEATURES AT VARYING PRICE POINTS. DESIGNS ARE TAILORED SPECIFICALLY FOR AUSTRALIAN AND NEW ZEALAND CONDITIONS.

MANUFACTURE AND LOGISTICS

KATHMANDU HAS LONG STANDING RELATIONSHIPS WITH MANY OF ITS SUPPLIERS AND PURCHASES SIGNIFICANT VOLUMES OF TRAVEL AND ADVENTURE CLOTHING AND EQUIPMENT. KATHMANDU HAS A MODERN LOGISTICS INFRASTRUCTURE INCLUDING A NEW DISTRIBUTION CENTRE IN MELBOURNE.

DISTINCT ADVANTAGES FROM **VERTICAL INTEGRATION**

STORES

- **KATHMANDU** PRODUCT IS ONLY SOLD IN KATHMANDU STORES AND ON ITS WEBSITE, SO THE COMPANY CONTROLS ALL ASPECTS OF ITS MARKETING AND RETAIL PRESENCE.

FROM IN-HOUSE DESIGN TO COMPANY-OPERATED RETAIL STORES, KATHMANDU'S BUSINESS MODEL GIVES THE COMPANY CONTROL OF ITS BRANDS AND PRODUCTS FROM SKETCH TO SALE.

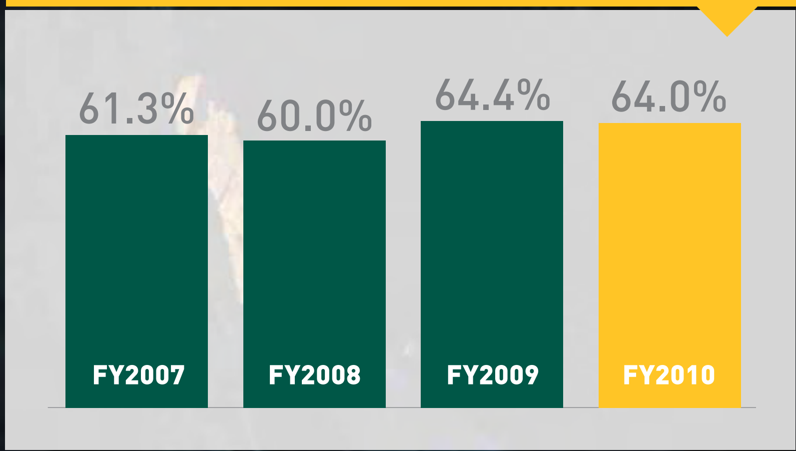
INVESTMENT HIGHLIGHTS

WINTER 09 – NEW ZEALAND

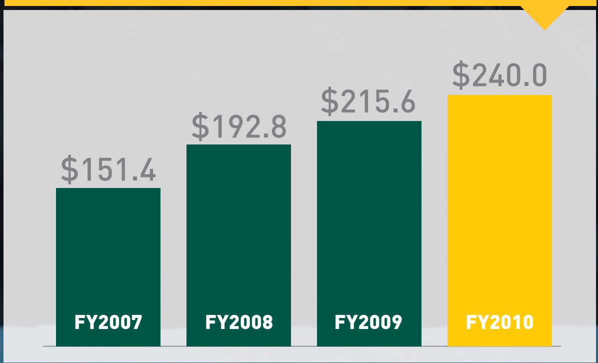
ATTRACTIVE AND STABLE MARGINS

- VERTICAL INTEGRATION ALLOWS KATHMANDU TO ACHIEVE BOTH A WHOLESALE AND RETAIL MARGIN.
- THE STRENGTH OF KATHMANDU'S BUSINESS MODEL HAS BEEN ILLUSTRATED THROUGH THE CONSISTENCY OF ITS GROSS PROFIT MARGIN DURING THE CHALLENGING RETAIL CONDITIONS IN AUSTRALIA AND NEW ZEALAND OVER THE PAST 12 MONTHS.

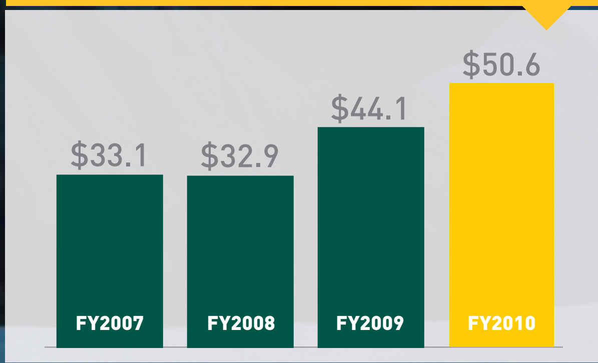
HISTORICAL AND FORECAST GROSS PROFIT MARGIN



HISTORICAL AND FORECAST SALES (NZ$M)



PRO FORMA HISTORICAL AND FORECAST EBIT (NZ$M)



Note:
These graphs should be read in conjunction with the more detailed discussion of historical financial information and the Directors' Forecast contained in Section 7, the Risk Factors set out in Section 9 and other information set out in this Prospectus.

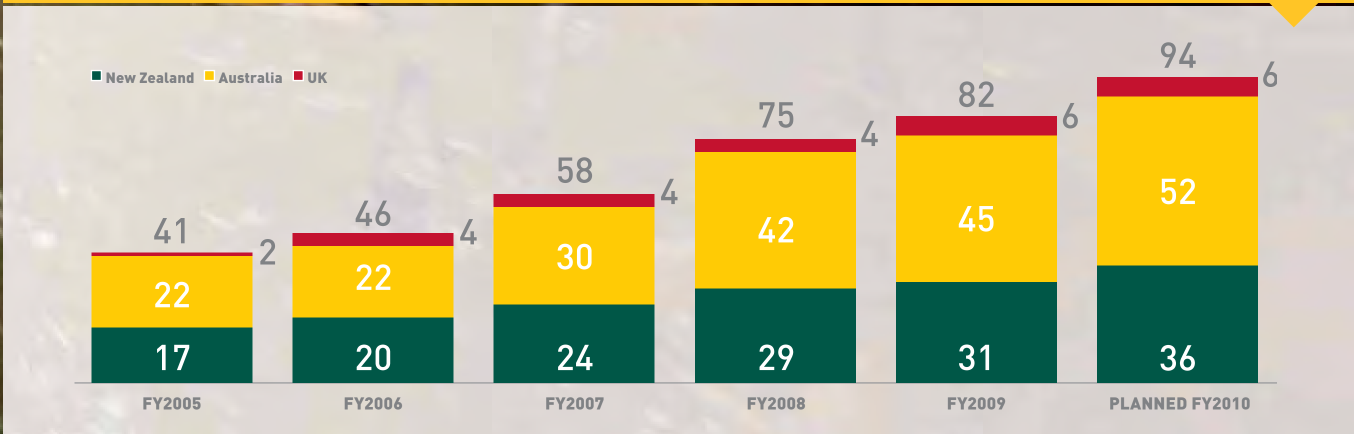
INVESTMENT HIGHLIGHTS

- **KATHMANDU** HAS GROWN FROM 41 STORES IN FY2005 TO 82 AS AT THE END OF FY2009. THE COMPANY PLANS TO OPEN 12 NEW STORES DURING FY2010, OF WHICH THREE HAVE ALREADY OPENED AND A FURTHER THREE ARE EXPECTED TO OPEN BEFORE CHRISTMAS.
- **THERE** ARE 70 LOCATIONS IN AUSTRALIA AND NEW ZEALAND TO ASSESS FOR SUITABLE NEW STORE SITES.
- **KATHMANDU** STORES IN AUSTRALIA AND NEW ZEALAND HAVE GENERALLY ACHIEVED PROFITABILITY WITHIN THE FIRST YEAR OF OPENING, AND THERE ARE CURRENTLY NO LOSS MAKING STORES IN EITHER COUNTRY.

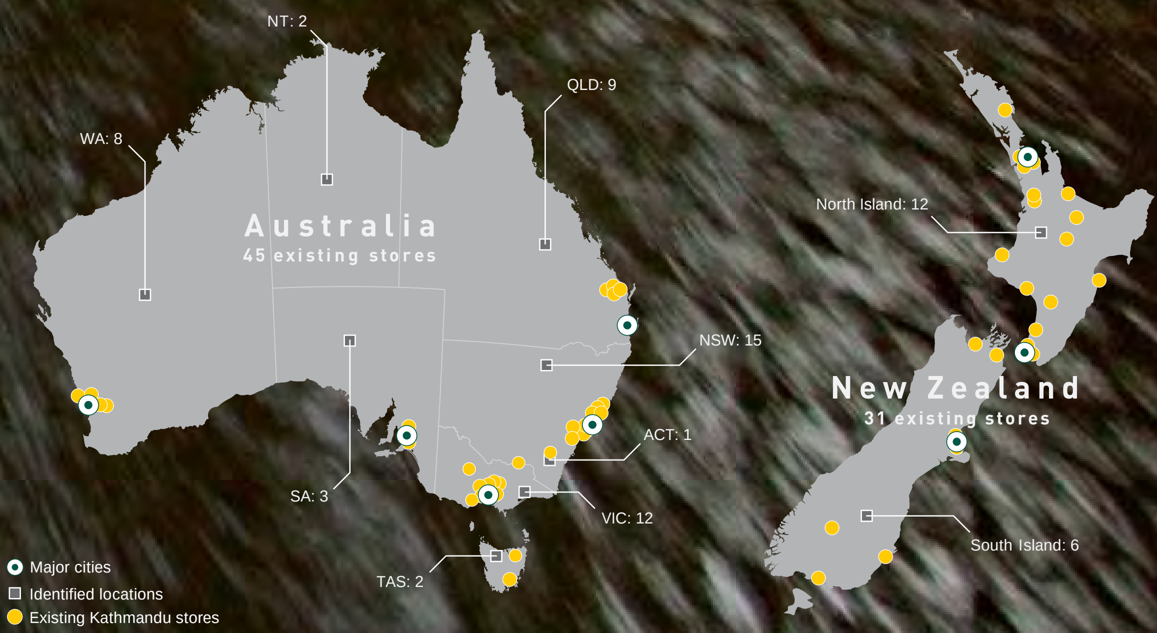
SUMMER 09 – BORNEO

SIGNIFICANT STORE ROLLOUT **POTENTIAL**

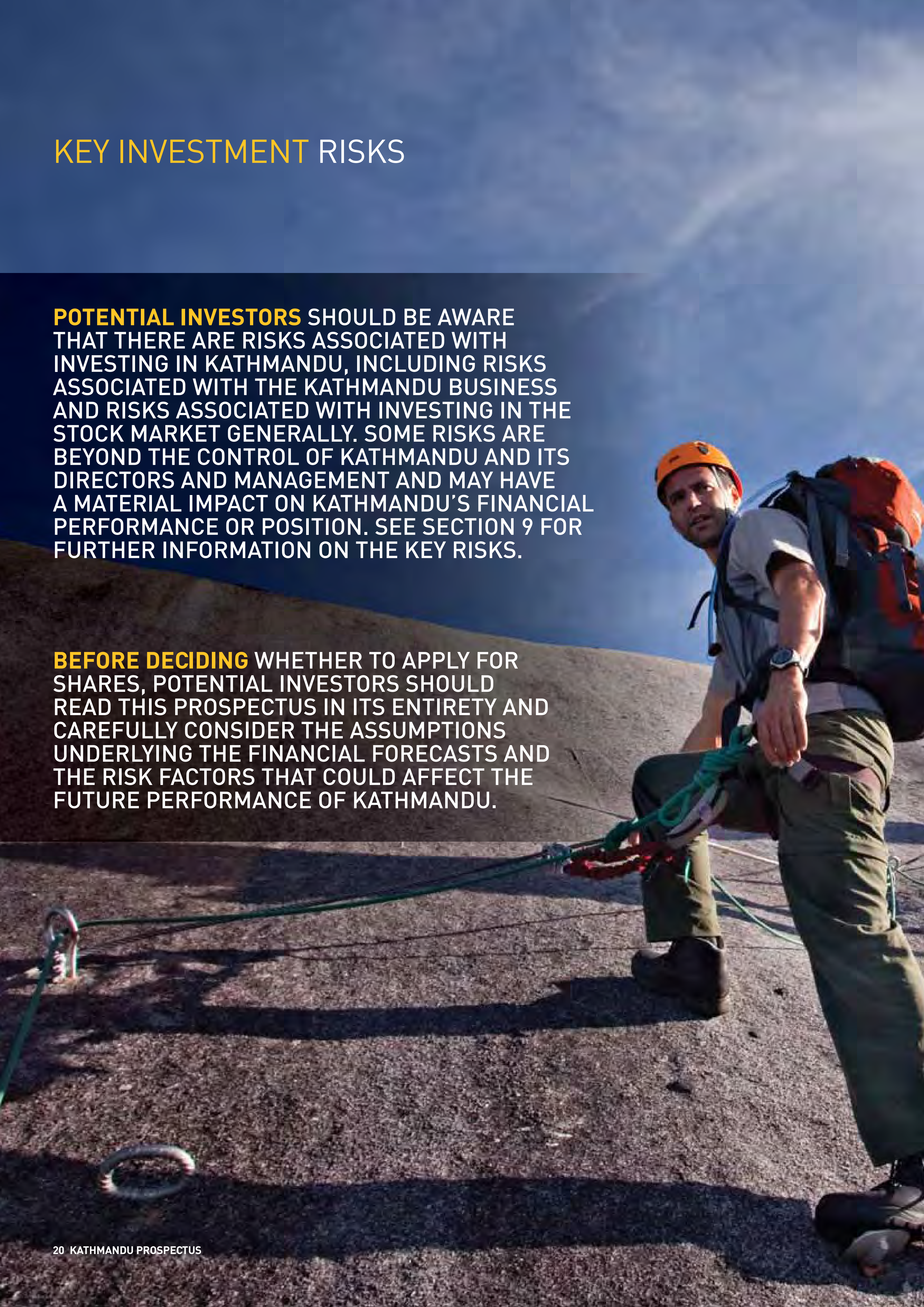
KATHMANDU'S STORE ROLLOUT



KATHMANDU PLANS TO OPEN 12 STORES IN FY2010 AND HAS 70 IDENTIFIED LOCATIONS IN AUSTRALIA AND NEW ZEALAND TO ASSESS FOR SUITABLE STORE SITES (INCLUDING THESE 12 STORES)



KEY INVESTMENT RISKS



POTENTIAL INVESTORS SHOULD BE AWARE THAT THERE ARE RISKS ASSOCIATED WITH INVESTING IN KATHMANDU, INCLUDING RISKS ASSOCIATED WITH THE KATHMANDU BUSINESS AND RISKS ASSOCIATED WITH INVESTING IN THE STOCK MARKET GENERALLY. SOME RISKS ARE BEYOND THE CONTROL OF KATHMANDU AND ITS DIRECTORS AND MANAGEMENT AND MAY HAVE A MATERIAL IMPACT ON KATHMANDU'S FINANCIAL PERFORMANCE OR POSITION. SEE SECTION 9 FOR FURTHER INFORMATION ON THE KEY RISKS.

BEFORE DECIDING WHETHER TO APPLY FOR SHARES, POTENTIAL INVESTORS SHOULD READ THIS PROSPECTUS IN ITS ENTIRETY AND CAREFULLY CONSIDER THE ASSUMPTIONS UNDERLYING THE FINANCIAL FORECASTS AND THE RISK FACTORS THAT COULD AFFECT THE FUTURE PERFORMANCE OF KATHMANDU.

KEY INVESTMENT **RISKS**

SOME OF THE KEY RISKS OF INVESTING IN KATHMANDU INCLUDE BUT ARE NOT LIMITED TO THE FOLLOWING:

- THE RETAIL ENVIRONMENT MAY DETERIORATE. A DOWNTURN IN GENERAL ECONOMIC CONDITIONS MAY HAVE A MATERIAL ADVERSE EFFECT ON KATHMANDU; AND
- THE SUCCESS OF KATHMANDU IS HEAVILY RELIANT ON ITS REPUTATION AND BRANDING. UNEXPECTED ISSUES OR EVENTS MAY DAMAGE KATHMANDU'S REPUTATION OR THE VALUE OF ITS BRAND.

KEY INVESTMENT RISKS

SUMMER 09 – NEW ZEALAND

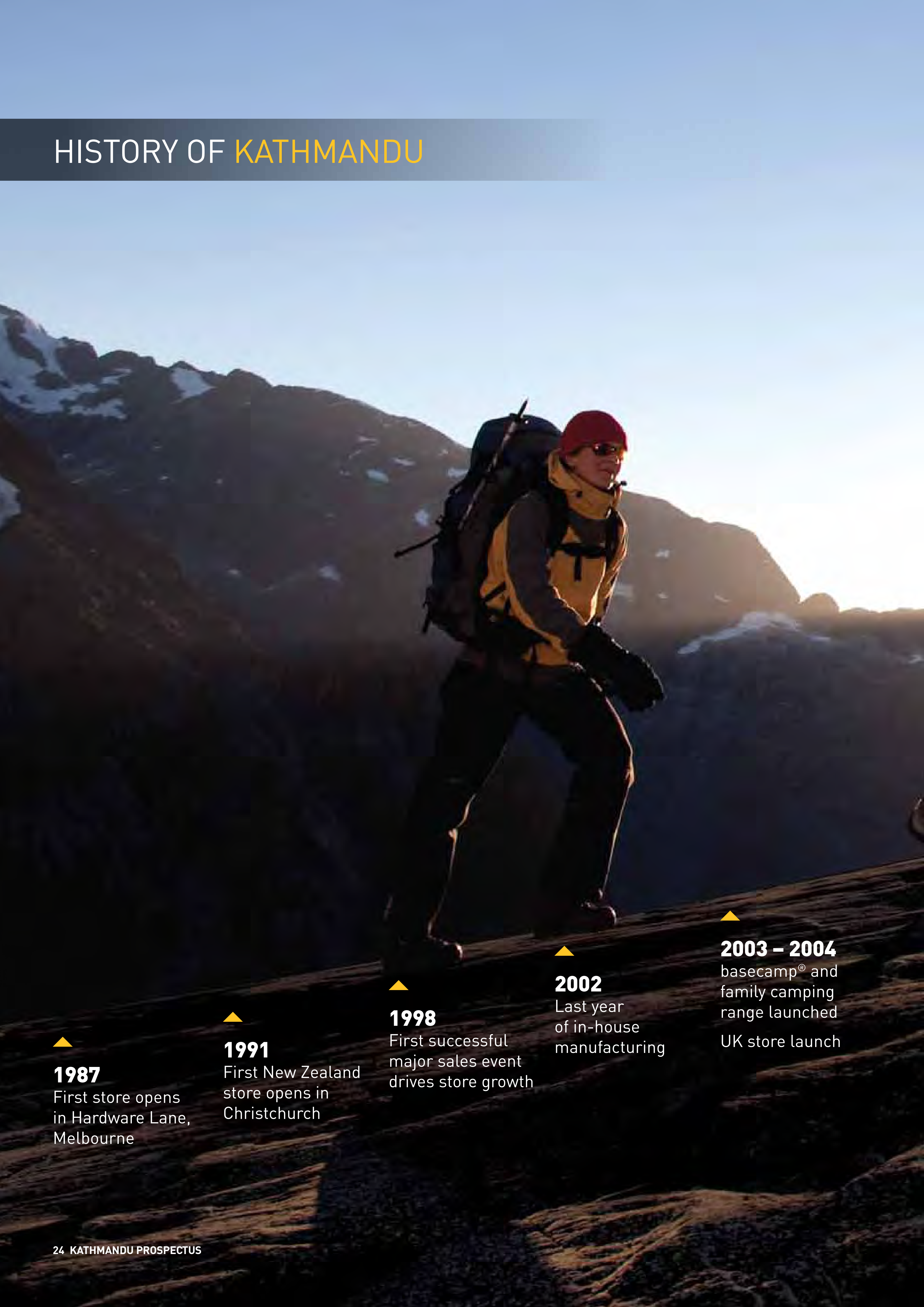
KEY INVESTMENT **RISKS**

SOME OF THE KEY RISKS OF INVESTING IN KATHMANDU INCLUDE BUT ARE NOT LIMITED TO THE FOLLOWING:

- KATHMANDU MAY FACE AGGRESSIVE COMPETITION OR ITS COMPETITIVE POSITION MAY DETERIORATE;
- KATHMANDU'S SALES MAY BE ADVERSELY AFFECTED BY UNSEASONAL WEATHER CONDITIONS;
- A SALE PROMOTION FAILURE WOULD ADVERSELY IMPACT KATHMANDU'S EARNINGS AND CASH FLOW;
- PRODUCT SOURCING FROM THIRD PARTIES CARRIES RISK;
- KATHMANDU MAY LOSE KEY MANAGEMENT PERSONNEL AND MAY NOT BE ABLE TO RECRUIT EQUALLY QUALIFIED REPLACEMENTS;
- INFORMATION TECHNOLOGY FAILURES MAY OCCUR AND INFORMATION TECHNOLOGY PROJECTS MAY NOT BE SUCCESSFULLY IMPLEMENTED;
- UNFORESEEN OR UNEXPECTED REGULATION COULD ADVERSELY AFFECT OPERATIONS;
- FOREIGN EXCHANGE MOVEMENTS MAY RESULT IN A CHANGE OF RELATIVE COMPETITIVENESS IN THE SHORT TERM;
- KATHMANDU MAY BE UNABLE TO SECURE SUITABLE SITES FOR NEW STORES AT COMPETITIVE RATES; AND
- THERE COULD BE A GREATER THAN EXPECTED IMPACT TO EXISTING STORE SALES FROM THE NEW STORE ROLLOUT.

SEE SECTION 9 FOR FURTHER INFORMATION ON KEY RISKS

HISTORY OF KATHMANDU



1987
First store opens in Hardware Lane, Melbourne

1991
First New Zealand store opens in Christchurch

1998
First successful major sales event drives store growth

2002
Last year of in-house manufacturing

2003 – 2004
basecamp® and family camping range launched

UK store launch

2006
Ownership change, new management, new Board

New Melbourne distribution centre and regional head office

CEO appointed

2007
Regional management structure implemented

New UK regional head office

New point-of-sales IT system implemented

Supply-chain team established

2008
New electronic time and attendance IT system implemented

New Christchurch head office

2009
Enhanced, transactional website launched

Company intranet rolled out

Specialist HR function implemented

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INVESTMENT OVERVIEW

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1.

INVESTMENT OVERVIEW

1.1 BUSINESS OVERVIEW

The Kathmandu business was established 22 years ago and has grown to become a leading retailer of clothing and equipment for travel and adventure in Australia and New Zealand. The essence of the Kathmandu brand is ‘Live the Dream’, designed to appeal to consumers’ aspirations of travel and adventure. Already an iconic brand in New Zealand, Kathmandu has a growing profile and attractive market position in Australia with plans to continue to grow its footprint and presence in both countries. The Company also has a small presence in the UK.

Approximately 95% of products sold in Kathmandu stores are Kathmandu branded. Total sales are split approximately 60% clothing and 40% equipment. Kathmandu’s in-house teams manage the design of its products and commission production by third party manufacturers. These products are only sold in Kathmandu stores and through its website, giving Kathmandu control of its brand, products and customer experience and allowing the Company to achieve both a wholesale and retail margin. This vertical integration is a key feature of the Kathmandu business.

Kathmandu has enjoyed significant growth in recent years under its current owners. Sales have increased from NZ$15.1 million in FY2007 to NZ$216 million in FY2009 and the store footprint has expanded from 58 stores to 82 stores as at 31 July 2009, with plans for an additional 12 to open in FY2010. Kathmandu is forecasting FY2010 sales of NZ$240 million and FY2010 pro forma EBITDA of NZ$57.1 million, representing an increase of 11% and 15% on FY2009 respectively.

1.2 SUMMARY FINANCIAL INFORMATION

The following table summarises Kathmandu’s historical income statements for FY2007, FY2008 and FY2009, forecast income statement for FY2010 and other operating data for the same periods. See Section 7 for further details.

NZ$ summary financial information

	Pro forma historical[1]			Pro forma forecast[2]
Year to 31 July ($m, except per Share data)	FY2007	FY2008	FY2009	FY2010
Sales	151.4	192.8	215.6	240.0
Gross profit	92.8	115.7	138.8	153.7
EBITDA	35.2	37.2	49.6	57.1
EBIT	33.1	32.9	44.1	50.6
NPAT				30.9
EPS (cents)				15.4
DPS (cents)				6.7

NZ$ Key metrics

	Pro forma historical[1]			Pro forma forecast[2]
Year to 31 July ($m)	FY2007	FY2008	FY2009	FY2010
EBITDA margin	23.2%	19.3%	23.0%	23.8%
EBITDA growth		5.6%	33.5%	15.1%
Maintenance capex	2.7	3.6	2.6	7.0
Growth capex	5.2	8.1	5.3	5.6
Number of stores	58	75	82	94
NZ$/A$ conversion rate	0.880	0.830	0.814	0.820

Notes:

1. The pro forma consolidated historical income statements for FY2007, FY2008 and FY2009 are reconciled to the audited consolidated income statements for those years in Section 7.13.1.
2. The pro forma forecast income statement for FY2010 is reconciled to the statutory consolidated forecast income statement for FY2010 in Section 7.13.2.

A$ summary financial information[1]

	Pro forma historical			Pro forma forecast
Year to 31 July ($m, except per Share data)	FY2007	FY2008	FY2009	FY2010
Sales	133.2	160.0	175.5	196.8
Gross profit	81.7	96.1	112.9	126.0
EBITDA	31.0	30.9	40.4	46.8
EBIT	29.1	27.3	35.9	41.5
NPAT				25.3
EPS (cents)				12.7
DPS (cents)				5.5

Notes:
1. Kathmandu has historically presented its annual statutory financial statements in New Zealand dollars. Its pro forma historical earnings have been converted into Australian dollars for illustrative purposes only based on the weighted average exchange rate over each fiscal year. For further detail on the conversion methodology refer to Section 7.2.1.

1.3 DIVIDEND POLICY

Subject to its forecast being achieved, available distributable profits and other relevant factors, the first dividend the Directors intend to declare will be 6.7 New Zealand cents per Share in respect of the second half of FY2010. This dividend is expected to be paid in November 2010 and is expected to be fully franked for Australian tax purposes and fully imputed for New Zealand tax purposes. Note that movements in the exchange rate between the time when Kathmandu decides to pay the dividend and when the dividend is paid may impact the level of franking in Australian dollar terms. The FY2010 dividend yield based on this part year dividend is forecast to be 3.1%[1] based on the midpoint of the Indicative Price Range.

Beyond the forecast period, the Company's current dividend policy is to distribute between 50% – 60% of NPAT. In respect of future years, subject to available profits and the financial position of the Company, an interim dividend is expected to be payable annually in May, with a final dividend payable annually in November. Kathmandu intends to attach both New Zealand imputation credits and Australian franking credits to dividends paid by Kathmandu to the extent possible.

Despite the intentions set out in this Section, no guarantee can be given about the level or payment of dividends, the level of imputation or franking of such dividends or the payout ratios as these matters depend upon the future profits of Kathmandu and its financial and taxation position at that time. Refer to Section 7.14 for further discussion of dividend policy.

1. Note that FY2010 dividends are payable with respect to earnings generated in the second half of FY2010 only. The dividend has not been annualised in dollar value or in terms of its yield.

1.4 PURPOSE OF THE OFFER AND USE OF PROCEEDS

The purpose of the Offer is to:

- raise capital to fund the acquisition of Milford, which is the current holder of the Kathmandu business, from the Milford Shareholders; and
- list Kathmandu on ASX and NZX, which will provide Kathmandu with additional financial flexibility to pursue growth opportunities and improve access to capital markets; and
- provide a liquid market for Shares and an opportunity for employees and other persons to invest in the Company.

The proceeds of the Offer will be applied to:

- satisfy the cash consideration payable for the acquisition by Kathmandu of the shares in Milford from the Milford Shareholders;
- fund in part the repayment of existing debt in Milford; and
- pay the fees and expenses of the Offer.

The consideration payable for the acquisition by Kathmandu of the shares in Milford from the Milford Shareholders will be reduced by the amount of the fees and expenses of the Offer (net of tax deductions). This is described further in Sections 3.2 and 3.3, along with additional information on the consideration to be paid to acquire Milford.

The Directors believe that on completion of the Offer, Kathmandu will have sufficient cash flow from its operations and arranged funding sources to fund its stated business objectives.

1.

INVESTMENT OVERVIEW

1.5 KEY INVESTMENT RISKS

Potential investors should be aware that there are risks associated with investing in Kathmandu, including risks associated with the Kathmandu business and risks associated with investing in the stock market generally. Some risks are beyond the control of Kathmandu and its Directors and Management and may have a material impact on Kathmandu's Financial performance and position. See Section 9 for further information on the key risks.

Before deciding whether to apply for shares, potential investors should read this Prospectus in its entirety and carefully consider the assumptions underlying the Forecast Financial Information and the risk factors that could affect the future performance of Kathmandu.

1.6 ENQUIRIES

This Prospectus, and information about the Offer is available in electronic form at www.kathmanduholdings.com.
All enquiries in relation to this Prospectus should be directed to the Kathmandu Offer Information Line on 1800 190 082 (within Australia) or 0800 767 556 (within New Zealand) between 8:30am and 5:30pm AEDT/NZDT Monday to Friday.

If you are unclear in relation to any matter or are uncertain as to whether Kathmandu is a suitable investment for you, you should seek professional advice from your stockbroker, solicitor, accountant or other independent professional adviser.


KEY QUESTIONS
2.

2.

KEY QUESTIONS

Topic	Summary	Where to find more information
Offer overview		
Who is the issuer of this Prospectus?	Kathmandu Holdings Limited, a company incorporated in New Zealand (company number 2334209) and registered in Australia as a foreign company (ARBN 139 836 918).	Section 5
What does Kathmandu do?	Kathmandu is a leading specialist retailer of quality clothing and equipment for travel and adventure operating 82 stores (as at 31 July 2009) across Australia, New Zealand and the UK.	Section 5
What is being offered?	The Offer comprises the offer of fully paid ordinary shares in Kathmandu.	Section 3
Where will the Shares be listed?	Applications have been made, or will be made, to ASX and NZX for permission to quote or list the Shares on ASX and NZX (under the code KMD).	Section 3
What is the purpose of the Offer?	The purpose of the Offer is to: • raise capital to fund the acquisition of Milford, which is the current holder of the Kathmandu business, from the Milford Shareholders; and • list Kathmandu on ASX and NZX, which will provide Kathmandu with additional financial flexibility to pursue growth opportunities and improve access to capital markets; and • provide a liquid market for Shares and an opportunity for employees and other persons to invest in the Company.	Section 3
How will the proceeds of the Offer be used?	The proceeds of the Offer will be applied to: • satisfy the cash consideration payable for the acquisition by Kathmandu of Milford, the current holder of the Kathmandu business, from the Milford Shareholders; • fund in part the repayment of existing debt in Milford; and • pay the fees and expenses of the Offer. Refer to Sections 3.2 and 3.3 for additional information on the consideration to be paid to Milford Shareholders to acquire Milford.	Section 3
Who are the Milford Shareholders?	The Milford Shareholders are: • Goldman Sachs JBWere Principal Investment Area; • Quadrant Private Equity; and • a shareholder representing Management. Goldman Sachs JBWere Principal Investment Area and Quadrant Private Equity have confirmed that they may take up to 20% of the consideration payable to them for their Milford Shares in the form of Kathmandu Shares. For more information on the Milford Shareholders and the potential post-offering shareholdings of these parties refer to Section 3.3.	Section 3

Topic	Summary	Where to find more information
What is the Offer structure?	The Offer comprises: • the Retail Offer, consisting of: – the Kathmandu Employee Offer made to Eligible Kathmandu Employees; and – the Broker Firm Offer made to Australian and New Zealand resident retail clients who have received a firm allocation from their Broker; and • the Institutional Offer, which consists of an invitation to bid for Offer Shares made to Institutional Investors in Australia and New Zealand and a number of overseas jurisdictions. The allocation of Shares between the Retail Offer and the Institutional Offer will be determined by the Joint Lead Managers and Milford, in consultation with Kathmandu, having regard to the allocation policy described in Section 3.5.4. The Offer is being extended to New Zealand investors under the mutual recognition regime applicable to public offers of securities in Australia and New Zealand. The Offer will not be underwritten. There is no general public offer of Shares.	Sections 3 and 10
What is the Offer Price?	Kathmandu has set an Indicative Price Range of A$1.65–A$1.90 per Share. The Final Price will be set in A$ after the conclusion of the Institutional Offer and may be within, above or below this range. The Final Price will be determined by the Joint Lead Managers and Milford, in consultation with Kathmandu. The Final Price for New Zealand investors applying under the Retail Offer (the Final Price NZ$) will be calculated by converting the A$ Final Price into NZ$ at the applicable exchange rate on the Institutional Offer Closing Date. Refer to Section 3.4.2 for further information.	Section 3
What is being offered to investors under the Offer?	166.9 million – 197.4 million Shares are being offered to investors under this Prospectus[1]. Based on the Indicative Price Range for the Offer of A$1.65 – A$1.90 (NZ$2.01 – NZ$2.32[2]) per Share, the gross proceeds from the Offer are expected to be in the range of A$277.7 – A$374.9 million (NZ$338.6 – NZ$457.2 million[2])[3].	Section 3
When will dividends on the Shares be paid?	Subject to available profits and the financial position of Kathmandu, the first dividend post listing is expected to be paid in November 2010. In future years, an interim dividend is expected to be payable annually in May, with a final dividend payable annually in November. No guarantee can be given about future dividends, or the level of franking or imputation of such dividends, as these matters will depend upon the future profits of Kathmandu, its financial and taxation position and the Directors' views of the appropriate payout ratio at the time.	Section 7
What is the forecast yield on the Shares?	The Directors intend to declare a dividend of 6.7 New Zealand cents per Share in respect of the second half of FY2010, which is equivalent to a dividend yield based on this half year dividend of 3.1% at the midpoint of the Indicative Price Range.[4] Payment of this dividend may be subject to Directors' forecasts being achieved and other relevant factors. The Directors can give no assurance as to the extent or timing of dividends, nor the level of imputation or franking of dividends.	Section 7

Notes:

1. Assumes in the first instance the Milford Fund Shareholders elect to take 20% (being the highest potential proportion) of the proceeds payable to them for their Milford Shares in Shares and a Final Price of A$1.90, and in the second instance no Shares and a Final Price of A$1.65. The actual number of Shares available to investors under the Offer may be below, within or above this range. For further information refer to Section 3.3.
2. The Indicative Price Range in NZ$ has been calculated from A$ prices using an exchange rate of 0.82 for illustrative purposes only. Refer to Section 3.4.2 for further information on the calculation of the Final Price.
3. Assumes in the first instance the Milford Fund Shareholders in effect elect to take 80% (being the lowest potential proportion) of the proceeds payable to them for their Milford Shares in cash and a Final Price of A$1.65, and in the second instance 100% (being the highest potential proportion) and a Final Price of A$1.90. The actual amount of proceeds may be below, within or above this range.
4. Note that FY2010 dividends are expected to be paid with respect to earnings generated in the second half of FY2010 only. Refer to Section 1.3 for information on dividends. The dividend neither in dollar nor yield terms has been annualised.

2.

KEY QUESTIONS

<table>
<tr><th>Topic</th><th>Summary</th><th>Where to find more information</th></tr>
<tr><td>What are the tax implications of investing in the Shares?</td><td>A discussion of certain Australian and New Zealand tax consequences of participating in the Offer and investing in Shares for Australian and New Zealand tax residents is set out in Section 10.6. Investors should consider the tax consequences of the Offer and investing in Shares in light of their own particular circumstances and seek advice from their tax adviser.</td><td>Section 10</td></tr>
<tr><td colspan="3">Applying</td></tr>
<tr><td>Am I eligible to participate in the Offer?</td><td>• The Kathmandu Employee Offer is open to Eligible Kathmandu Employees.
• The Broker Firm Offer is open to Australian or New Zealand resident retail clients who have received a firm allocation from their Broker.
• The Institutional Offer is open to Institutional Investors in Australia, New Zealand and certain overseas jurisdictions.

There is no general public offer of Shares.</td><td>Section 3</td></tr>
<tr><td>How can I apply?</td><td>You may apply for Shares by submitting a valid Application Form:
• The green Application Form is to be completed by Australian Kathmandu Employee Offer Applicants only;
• The yellow Application Form is to be completed by New Zealand Kathmandu Employee Offer Applicants only;
• The blue Application Form is to be completed by Australian Broker Firm Offer Applicants only; and
• The grey Application Form is to be completed by New Zealand Broker Firm Offer Applicants only.</td><td>Section 3</td></tr>
<tr><td>What are the key dates of the Offer?</td><td>• The Retail Offer, comprising the Kathmandu Employee Offer and the Broker Firm Offer, opens on Tuesday, 27 October 2009.
• The Retail Offer closes at 5:00pm AEDT/NZDT on Friday, 6 November 2009.
• The Institutional Bookbuild will be held from Tuesday, 10 November 2009 to Wednesday, 11 November 2009.
• Shares are expected to commence trading on ASX (on a deferred settlement basis) and NZX (on a normal basis) under the code KMD on Wednesday, 18 November 2009.
• Shares are expected to commence trading on ASX on a normal basis on Friday, 20 November 2009.

These dates are indicative only. Kathmandu, the Joint Lead Managers and the Milford Fund Shareholders reserve the right to vary the times and dates of the Offer, including to close the Offer early, to extend the Closing Date or accept late Applications, either generally or in particular cases, without notifying any recipient of this Prospectus or any Applicants.</td><td>Section 3</td></tr>
<tr><td>What is the minimum and maximum Application size under the Offer?</td><td>• The minimum Application for the Kathmandu Employee Offer is A$1,000 for Australian Applicants (in multiples of A$500 thereafter) and NZ$1,000 for New Zealand Applicants (in multiples of NZ$500 thereafter).
• The maximum Application for the Kathmandu Employee Offer is A$10,000 for Australian Applicants and NZ$10,000 for New Zealand Applicants.
• The minimum Application for Broker Firm Applicants is as directed by your Broker.
• The Joint Lead Managers, in consultation with Kathmandu and the Milford Fund Shareholders, reserve the right to reject any Application or to allocate a lesser amount of Shares than that applied for.</td><td>Section 3</td></tr>
<tr><td>Is there any brokerage, commission or stamp duty payable by the Applicants?</td><td>No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer.</td><td>Sections 3 and 10</td></tr>
</table>

Topic	Summary	Where to find more information
When will I receive confirmation that my Application has been successful?	It is expected that holding statements will be despatched to successful Applicants by standard post on or around Thursday, 19 November 2009. If you are a Broker Firm Offer Applicant and wish to find out if your Application was successful prior to receiving your holding statement you should contact your Broker. All enquiries in relation to this Prospectus should be directed to the Kathmandu Offer Information Line on 1800 190 082 (within Australia) or 0800 767 556 (within New Zealand) between 8:30am and 5:30pm AEDT/NZDT Monday to Friday.	Section 3
More information		
Who are the advisers to the Offer?	• Goldman Sachs JBWere and Macquarie Capital Advisers are Joint Lead Managers to the Offer. • Goldman Sachs JBWere (NZ) Limited and Macquarie Securities (NZ) Limited are Organising Participants in New Zealand. • First NZ Capital Securities Limited is the Co-Manager to the Offer in New Zealand. • Commonwealth Securities Limited is the Co-Manager to the Offer in Australia. • Clayton Utz is the Australian legal adviser to the Offer. • Chapman Tripp is the New Zealand legal adviser to the Offer. • Deloitte Touche Tohmatsu Ltd is the Australian and New Zealand tax adviser to the Offer. • PricewaterhouseCoopers Securities Ltd has prepared the Investigating Accountant's Report.	Section 10
Where can I find more information?	Please call the Kathmandu Offer Information Line on 1800 190 082 (within Australia) or 0800 767 556 (within New Zealand) between 8:30am and 5:30pm AEDT/NZDT Monday to Friday. This Prospectus and information about the Offer are also available in electronic form at www.kathmanduholdings.com. If you are unclear in relation to any matter or are uncertain as to whether Kathmandu is a suitable investment for you, you should seek professional advice from your stockbroker, solicitor, accountant or other independent professional adviser.	
Contact details	For further contact details, see the corporate directory.	Corporate directory

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3. DETAILS OF THE OFFER

3.

DETAILS OF THE OFFER

3.1 DESCRIPTION OF THE OFFER

The Offer comprises the issue of new fully paid ordinary shares in Kathmandu. 166.9 million – 197.4 million new Shares in aggregate are being offered to investors under this Prospectus[1]. Based on the Indicative Price Range for the Offer of A$1.65 – A$1.90 per Share (NZ$2.01 – NZ$2.32[2]), the gross proceeds from the Offer are expected to be in the range of A$277.7 million – A$374.9 million (NZ$338.6 million – NZ$457.2 million[2])[3].

All Shares will be issued at the Final Price and will rank equally with each other. See Sections 3.4 and 3.5 for more information on how the Final Price will be determined.

The total number of Shares on issue on completion of the Offer will be 200 million.

The Offer comprises:

- the Retail Offer, consisting of:
  - the Kathmandu Employee Offer to Eligible Kathmandu Employees; and
  - the Broker Firm Offer open to Australian and New Zealand resident Retail Investors who have received a firm allocation from their Broker; and
- the Institutional Offer, which consists of an invitation to bid for Shares made to Institutional Investors in Australia, New Zealand and certain overseas jurisdictions.

No general public offer will be made under the Offer. The allocation of Shares between the Retail Offer and the Institutional Offer will be determined by the Joint Lead Managers and Milford, in consultation with Kathmandu, having regard to the allocation policy described in Sections 3.4.3 and 3.5.4.

The Offer is being extended to New Zealand investors under the mutual recognition regime applicable to public offers of securities in Australia and New Zealand.

1. Assumes in the first instance the Milford Fund Shareholders elect to take 20% (being the highest potential proportion) of the proceeds payable to them for their Milford Shares in Shares and a Final Price of A$1.90, and in the second instance no Shares and a Final Price of A$1.65. The actual number of Shares available under the Offer may be below, within or above this range depending on the extent to which the Milford Fund Shareholders elect to take Shares in Kathmandu on completion of the Offer and the Final Price. For further information refer to Section 3.3.

   The bottom of the range of gross proceeds does not equal the bottom of the Indicative Price Range multiplied by the bottom of the range of Shares available to investors under the Offer. A similar comment can be made at the top of these ranges. This is because, as the proceeds to be applied to reduce debt in Milford, the estimated fees and expenses of the Offer, and the number of total Shares to be on issue on completion of the Offer are each fixed, on these indicative figures the smallest number of Shares will be available to investors at the top of the Indicative Price Range (and where the Milford Fund Shareholders elect to take up 20% of their consideration for Milford Shares in Shares in Kathmandu) and not at the bottom of the Indicative Price Range. Similarly, the largest number of Shares will be available to investors at the bottom of the Indicative Price Range (and where the Milford Fund Shareholders elect to take up none their consideration for Milford Shares in Shares in Kathmandu) and not at the top of the indicative price range.
2. The Indicative Price Range in NZ$ has been calculated from A$ prices using an exchange rate of 0.82 for illustrative purposes only. Refer to Section 3.4.2 for further information on the calculation of the Final Price.
3. Assumes in the first instance the Milford Fund Shareholders elect to take 20% (being the highest potential proportion) of the proceeds payable to them for their Milford Shares in Shares and a Final Price of A$1.90, and in the second instance no Shares and a Final Price of A$1.65. The actual number of Shares available to investors under the Offer may be below, within or above this range. For further information refer to Section 3.3.

3.2 PURPOSE OF THE OFFER AND USE OF PROCEEDS

The purpose of the Offer is to:

- raise capital to fund the acquisition of Milford, which is the current holder of the Kathmandu business, from the Milford Shareholders; and
- list Kathmandu on ASX and NZX, which will provide Kathmandu with additional financial flexibility to pursue growth opportunities and improve access to capital markets; and
- provide a liquid market for Shares and an opportunity for employees and other persons to invest in the Company.

The proceeds of the Offer will be applied to:

- satisfy the cash consideration payable for the acquisition by Kathmandu of the Milford Shares from the Milford Shareholders;
- fund in part the repayment of existing debt in Milford; and
- pay the fees and expenses of the Offer.

The consideration payable for the acquisition by Kathmandu of the shares in Milford from the Milford Shareholders will be reduced by the amount of the fees and expenses of the Offer (net of tax deductions). This is described further in Section 3.3, along with additional information on the consideration to be paid to acquire Milford.

The Directors believe that on completion of the Offer, Kathmandu will have sufficient cash flow from its operations and arranged funding sources to fund its stated business objectives.

Sources and uses of funds[1]

Sources of funds	
Issue of Offer Shares	NZ$361.7 million
Uses of funds	
Payment to Milford Shareholders	NZ$261.0 million
Repayment of existing debt in Milford	NZ$85.7 million
Fees and expenses of the Offer	NZ$15.0 million[2]

Notes:

1. Based on the midpoint of the Indicative Price Range. The Indicative Price Range in NZ$ has been calculated from A$ prices using an exchange rate of 0.82 for illustrative purposes only. The Final Price for New Zealand investors applying under the Retail Offer (the Final Price NZ$) will be calculated by converting the A$ Final Price into NZ$ at the applicable exchange rate on the Institutional Offer Closing Date. The A$/NZ$ exchange rate used to calculate the Final Price NZ$ is likely to differ from that used to calculate the Indicative Price Range in NZ$. Refer to Section 3.4.2 for further information on the calculation of the Final Price. Assumes the Milford Fund Shareholders in effect elect to take 80% of the proceeds payable to them under the Sale Deed in cash. The actual sources and uses of funds may be below, within or above these levels depending on the extent to which the Milford Fund Shareholders elect to take cash and the Final Price.
2. Fees and expenses are approximate as described in Section 10.5.1. To the extent that the actual fees and expenses (net of tax deductions) of the Offer vary from the estimate a corresponding change will be made to the payment to Milford Shareholders.

3.3 SHAREHOLDERS

Milford owns the Kathmandu business. The ownership structure of Milford immediately before the Offer is shown in the table below.

On completion of the Offer, Kathmandu will acquire all of the Milford Shares from the Milford Shareholders and will become the parent company of the Group. The consideration payable for the Milford Shares is calculated as the Final Price NZ$ multiplied by the number of Shares in Kathmandu following the Offer (being 200 million Shares), less the amount by which debt in Milford is to be paid down from the Offer proceeds (being NZ$85.7 million), and less the amount of the fees and expenses of the Offer (net of tax deductions) incurred by Kathmandu (which are estimated to be NZ$15 million before deductions). Further terms and conditions in relation to the acquisition of Milford Shares are set out in a Sale Deed between the Milford Shareholders and Kathmandu referred to in Section 10.5.1.

Each member of Management, including Peter Halkett, Mark Todd, Matt Spencer, Caleb Nicolson, Bryan Moore and Tamalin Morton, who will be subject to escrow arrangements as described below, has elected to receive a certain proportion of the consideration payable to them for their Milford Shares in the form of Shares in Kathmandu. In aggregate, Management has elected to receive 60% of the proceeds payable to them under the Sale Deed in Shares in Kathmandu. As a consequence of their election (and the issue of Shares under the Offer to raise funds to reduce debt in Milford), Management's effective ownership position in the business will, as set out in the table below, potentially be diluted from 2.8% of Milford to 1.3% of Kathmandu (based on the assumptions noted in the table below).

Managing Director Peter Halkett has elected to take 63.3% of the proceeds payable to him under the Sale Deed in Shares, and his potential holding in Kathmandu on completion of the Offer will be 0.71% (based on the assumptions made in the table below) compared to his holding of 1.46% in Milford. Finance Director Mark Todd has elected to take 60.9% of the proceeds payable to him under the Sale Deed in Shares, and his potential holding in Kathmandu on completion of the Offer will be 0.18% (based on the assumptions made in the table below) compared to his holding in Milford of 0.39%.

The Shares to be held by Management on completion of the Offer and subject to escrow arrangements are set out in Section 10.3.

The Milford Fund Shareholders have not elected the exact proportion of the consideration payable to them for their Milford Shares they will take in the form of Shares in Kathmandu – however the managers of the funds comprising the Milford Fund Shareholders have confirmed that this proportion will not exceed 20%. This election must be made by the Institutional Offer Closing Date. Any such Shares (less any which they hold for the purposes of the call option described in Section 10.9.1) will be the subject of escrow arrangements on completion of the Offer as further outlined in Section 10.3.

As a consequence of the above, the potential shareholding of each Milford Fund Shareholder in Kathmandu on completion of the Offer (assuming in the first instance that each Milford Fund Shareholder elects to take none of its consideration referred to above in the form of Shares, and in the second instance elects to take 20% in Shares) is illustrated, on the assumptions noted, in the table below.

	Pre-Offer (ownership of Milford)	Potential ownership of Kathmandu at completion of the Offer[1]
	%	%
Goldman Sachs JBWere Principal Investment Area	48.6%	0.0% – 7.5%
Quadrant Private Equity	48.6%	0.0% – 7.5%
Management	2.8%	1.3%
New Shareholders pursuant to the Offer	0.0%	83.7% – 98.7%
Total	100.0%	100.0%

Notes:

1. Assumes the Final Price is based on the midpoint of the Indicative Price Range (A$1.77); a A$/NZ$ exchange rate (for the calculation of the Final Price NZ$) of 0.82; and fees and expenses of the Offer of NZ$15 million. The actual number of Shares and percentage ownership of each of these parties may be below, within or above the ranges shown.

3.4 THE RETAIL OFFER

The Retail Offer consists of:

- the Kathmandu Employee Offer made to Eligible Kathmandu Employees; and
- the Broker Firm Offer made to Australian or New Zealand resident retail clients who have received a firm allocation from their Broker.

There is no general public offer.

3.

DETAILS OF THE OFFER

Retail Offer	Kathmandu Employee Offer		Broker Firm Offer
	Australian Applicant	New Zealand Applicant	
Who may apply	Eligible Kathmandu Employees.		Australian or New Zealand resident retail clients who have received a firm allocation from their Broker.
How to apply	Complete and return the green Australian Kathmandu Employee Offer Application Form.	Complete and return the yellow New Zealand Kathmandu Employee Offer Application Form.	Complete the: • blue Australian Broker Firm Offer Application Form if you are an Australian Applicant; or the • grey New Zealand Broker Firm Offer Application Form if you are a New Zealand Applicant and return to your Broker. Please contact your Broker for further instructions.
Minimum and maximum Application Amount	Applicants must apply for a minimum of A$1,000 worth of Shares and in multiples of A$500 worth of Shares thereafter. The maximum Application for the Kathmandu Employee Offer is A$10,000.	Applicants must apply for a minimum of NZ$1,000 worth of Shares and in multiples of NZ$500 worth of Shares thereafter. The maximum Application for the Kathmandu Employee Offer is NZ$10,000.	As determined by your Broker.
How to pay	Your Application Monies can be made by cheque(s) or bank draft(s) in Australian dollars and drawn on an Australian branch of an Australian bank. Cheque(s) must be crossed 'Not Negotiable' and made out to 'Kathmandu Share Offer Account'.	Your Application Monies can only be made by cheque(s) or bank draft(s) in New Zealand dollars and drawn on a New Zealand branch of a New Zealand bank. Cheque(s) must be crossed 'Not Negotiable' and made out to 'Kathmandu Share Offer Account'.	Broker Firm Offer Applicants should make payments in accordance with the directions of the Broker from whom you received a firm allocation.
Address for return of Application Forms and Application Monies	Kathmandu Holdings Limited C/– Link Market Services Limited Locked Bag A14 Sydney South NSW 1235	Kathmandu Holdings Limited C/– Link Market Services Limited PO Box 91976 Auckland 1142 Alternatively, Applications may be lodged with any Primary Market Participant, (as defined in the NZX market participant rules), one of the Organising Participants[2] or any other channel approved by NZX in time for such applications to be received by the Share Registry before 5:00pm NZDT on the Closing Date.	Broker Firm Offer Applicants must send their completed Application Form and Application Monies to their Broker in accordance with the relevant Broker's instructions and with sufficient time to enable processing by the Closing Date.
Closing Date for receipt of Applications[1]	Completed Applications must be received by the Share Registry (on behalf of the Company), no later than 5:00pm AEDT/NZDT on Friday, 6 November 2009.		5:00pm AEDT/NZDT on Friday 6 November 2009. Your Broker may impose an earlier closing date; please contact your Broker for instructions.
How to obtain a copy of this Prospectus and Application Form	Please contact the Kathmandu Offer Information Line on 1800 190 082 (within Australia) or 0800 767 556 (within New Zealand) between 8:30am and 5:30pm AEDT/NZDT Monday to Friday. You may also download this Prospectus at www.kathmanduholdings.com.		Please contact your Broker for instructions. You may also contact the Kathmandu Offer Information Line on 1800 190 082 (within Australia) or 0800 767 556 (within New Zealand) or download the Prospectus at www.kathmanduholdings.com.

Notes:

1. The Joint Lead Managers, the Milford Fund Shareholders and Kathmandu may elect to close the Offer or any part of it early, extend the Offer or any part of it, or accept late Applications either generally or in particular cases without further notice. Applicants are therefore encouraged to submit their Applications as early as possible.
2. Being Goldman Sachs JBWere (NZ) Limited and Macquarie Securities (NZ) Limited.

Kathmandu may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive Broker Firm Offer application procedures or requirements, in its discretion in compliance with applicable laws.

3.4.1 Availability of funds

You should ensure that sufficient funds are held in the relevant account(s) to cover the amount of the cheque(s) or bank draft(s). If the amount of your cheque(s) or bank draft(s) for Application Monies (or the amount for which those cheque(s) or bank draft(s) clear in time for allocation) is less than the amount specified on the Application Form, you may be taken to have applied for such lower dollar amount of Shares for which your cleared Application Monies will pay (and to have specified that amount on your Application Form) or your Application may be rejected.

Application Monies received under the Retail Offer will be held in a special purpose account until Shares are issued to successful Applicants. Applicants under the Retail Offer whose Applications are not accepted, or who are allocated a lesser dollar amount of Shares than the amount applied for, will be mailed a refund (without interest) of all or part of their Application Monies, as applicable on or about Thursday, 19 November 2009. Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will become an asset of Kathmandu.

3.4.2 Price payable under the Retail Offer

Subject to the following, successful Applicants in the Retail Offer will pay the Final Price per Share. The Joint Lead Managers and Milford, in consultation with Kathmandu, will agree the Final Price on or before the date on which the Shares are allocated under the Offer. The Final Price may be within, above or below the Indicative Price Range. Details in relation to the announcement of the Final Price, and the manner in which it will be determined, are provided in Sections 3.4.5 and 3.5.3 respectively.

Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing the Application Amount by the Final Price. Where the Final Price (or the Final Price NZ$ as referred to below) does not divide evenly into the Application Amount, the number of Shares to be allocated will be rounded down to the nearest whole number of Shares. In this circumstance, surplus Application Monies resulting from unallocated fractions of Shares will not be returned to Applicants and will become an asset of Kathmandu.

Investors resident in Australia applying in the Retail Offer

Investors resident in Australia applying in the Retail Offer can apply only in Australian dollars. They will have their holdings recorded on the Company's Australian Share register.

Investors resident in New Zealand applying in the Retail Offer

Investors resident in New Zealand applying in the Retail Offer can apply only in New Zealand dollars. They will have their holdings recorded on the Company's New Zealand Share register. They will pay the New Zealand dollar equivalent of the Final Price (the Final Price NZ$). The Final Price NZ$ will be calculated by converting the Final Price (which will be expressed in Australian dollars) to the New Zealand dollar equivalent using the New Zealand dollar/Australian dollar exchange rate as at 4:00pm AEDT on the Institutional Offer Closing Date, sourced from the Reserve Bank of Australia's website (www.rba.gov.au). Investors resident in New Zealand applying in the Retail Offer should note that the Indicative Price Range for the Offer in NZ$ has been calculated from A$ prices using an exchange rate of 0.82 for illustrative purposes only. The A$/NZ$ exchange rate used to calculate the Final Price NZ$ is likely to differ from that used to calculate the Indicative Price Range in NZ$.

3.4.3 Allocation policy under the Retail Offer

If the value of Applications in the Retail Offer is greater than the value of Shares available in the Retail Offer, Applications will be scaled back. Kathmandu has absolute discretion regarding the allocation of Shares to Applicants in the Retail Offer (except as set out below).

No Applicant under the Kathmandu Employee Offer has any assurance of being allocated all or any of the Shares applied for.

Applications relating to firm stock allocated to Brokers for allocation to their Australian or New Zealand resident retail clients will not be scaled back by Kathmandu (subject to the right of Kathmandu, the Joint Lead Managers and the Milford Fund Shareholders to treat Applications which are for more than A$100,000 worth of Shares, or which are from persons whom they believe may be Institutional Investors, as Final Price bids in the Institutional Offer, or to reject them). It will be a matter for the Brokers as to how they make firm allocations among their Australian or New Zealand resident retail clients, and they (and not Kathmandu, the Joint Lead Managers nor any Milford Shareholders) will be responsible for ensuring that retail clients who have received a firm allocation from them receive the relevant Shares.

3.4.4 Acceptance of Applications

An Application in the Retail Offer is an offer by the Applicant to the Company to subscribe for Shares, for all or any of the Application Amount specified in and accompanying the Application Form, at the Final Price (or Final Price NZ$ in the case of Applicants resident in New Zealand) on the terms and conditions set out in this Prospectus including any supplementary or replacement Prospectus and the Application Form (including the conditions regarding quotation on ASX and NZX in Section 3.7). To the extent permitted by law, the offer by an Applicant is irrevocable. An Application may be accepted in respect of the full amount of Shares specified in the Application Form or any of the amount, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract.

3.4.5 Announcement of the Final Price and final allocation policy

The Final Price will be advertised in *The Australian, The Australian Financial Review, The Sydney Morning Herald, The Melbourne Age, The New Zealand Herald, The Dominion Post* and *The Christchurch Press* shortly after the close of the Institutional Offer. The publication of the announcement is expected to occur on Friday, 13 November 2009.

From Friday, 13 November 2009, Kathmandu Employee Offer Applicants will be able to call the Kathmandu Offer Information Line on 1800 190 082 (within Australia) or 0800 767 556 (within New Zealand) to find out details of their allocations. Broker Firm Offer Applicants will also be able to confirm their firm allocation through the Broker from whom they received their allocation. Note, if you sell Shares before receiving a holding statement, you do so at your own risk, even if you obtained details of your holding from the Kathmandu Offer Information Line or confirmed your firm allocation through your Broker.

3.5 THE INSTITUTIONAL OFFER

3.5.1 Invitations to bid

The Company and the Joint Lead Managers are inviting certain Institutional Investors to bid for Shares in the Institutional Offer.

The Institutional Offer is structured in three parts:

- an invitation to Australian and New Zealand resident Institutional Investors to bid for Shares – made under this Prospectus;
- an invitation to Australian and New Zealand Brokers who elect to bid for Shares at the Final Price under the Institutional Offer on behalf of Australian or New Zealand resident Retail Investors – made under this Prospectus; and
- an invitation to Institutional Investors resident in certain jurisdictions outside Australia and New Zealand – made under this Prospectus.

3.5.2 The bookbuild process and Indicative Price Range

The Institutional Offer will be conducted using a bookbuild process managed by the Joint Lead Managers. Full details of how to participate, including bidding instructions, will be provided to participants by the Joint Lead Managers in due course.

Participants can only bid into the book for Shares through the Joint Lead Managers. They may bid for Shares at specific price(s) or at the Final Price. Participants may bid above, within or below the Indicative Price Range, which is A$1.65 – A$1.90 per Share. The Indicative Price Range may be varied at any time by the agreement of the Joint Lead Managers and the Milford Fund Shareholders in consultation with Kathmandu.

The minimum bid size is 50,000 Shares, and thereafter in multiples of 50,000 Shares. However, the right is reserved to accept smaller bids (including any Applications in the Retail Offer which are treated as Final Price bids in the Institutional Offer, as described in Section 3.4.3). Bids must be received between 9:00am AEDT on Tuesday, 10 November 2009 and 12:00pm AEDT/2:00pm NZDT on Wednesday, 11 November 2009, unless these times and dates are varied by Kathmandu, the Joint Lead Managers and the Milford Fund Shareholders.

Bids may be amended or withdrawn at any time up to the closing time for the Institutional Offer. Any bid not withdrawn by that time is an irrevocable offer by the relevant bidder to subscribe for the Shares bid for (or such lesser number as may be allocated) at or below the price per Share bid, on the terms and conditions in any bidding instructions provided by the Joint Lead Managers to participants and the conditions regarding quotation on ASX and the NZX referred to in Section 3.7. Bids can be accepted or rejected in whole or in part without further notice to the bidder. Acceptance of a bid will give rise to a binding contract.

All successful bidders will pay the Final Price for each Share allocated to them.

3.5.3 Determination of the Final Price

The Final Price will be determined by the Joint Lead Managers and Milford, in consultation with Kathmandu, on or before the date on which Shares are allocated under the Offer after the close of the Institutional Offer. It is expected that the Final Price and basis of Share allocation will be announced on Thursday, 12 November 2009.

In determining the Final Price, consideration may be given to the following factors (amongst others):

- the level of demand for Shares in the Institutional Offer at various prices;
- the level of demand for Shares in the Retail Offer;
- the objective of maximising the proceeds of the Offer; and
- the desire for an orderly secondary market in the Shares.

The Final Price will not necessarily be the highest price at which Shares could be issued or transferred under the Offer and may be set above, within or below the Indicative Price Range. Accordingly, successful Applicants under the Retail Offer and successful bidders under the Institutional Offer may pay a Final Price which is above, within or below the Indicative Price Range. The Final Price NZ$ will be calculated by converting the A$ Final Price into NZ$ at the applicable exchange rate on the Institutional Offer Closing Date. The A$/NZ$ exchange rate used to calculate the Final Price NZ$ is likely to differ from that used to calculate the Indicative Price Range in NZ$.

3.5.4 Allocation policy under the Institutional Offer

The allocation of Shares among bidders in the Institutional Offer will be determined by the Joint Lead Managers in consultation with Kathmandu and Milford. They have absolute discretion regarding the basis of allocation of Shares, and there is no assurance that any bidder will be allocated any Shares, or the number of Shares for which it has bid. The initial determinant of the allocation of Shares in the Institutional Offer will be the Final Price. Bids lodged at prices below the Final Price will not receive an allocation of Shares. The allocation policy will be influenced by the following factors:

- the price and number of Shares bid for by particular bidders;
- the timeliness of the bid by particular bidders;
- the Company's desire for an informed and active trading market in Shares following Listing;
- the Company's desire to establish a wide spread of institutional Shareholders;
- the size and type of funds under the management of particular bidders;
- the likelihood that particular bidders will be long-term Shareholders; and
- any other factors that Kathmandu, the Joint Lead Managers and the Milford Fund Shareholders consider appropriate, in their absolute discretion.

3.6 OFFER MANAGEMENT AGREEMENT

The Offer is not underwritten. The Company, Milford, and the Joint Lead Managers have entered into an Offer Management Agreement in respect of the management of the Offer.

Once the Final Price has been determined, the Joint Lead Managers or their affiliates will be obliged to provide settlement support in respect of successful bids in the Institutional Offer under the Offer Management Agreement. The Offer Management Agreement sets out a number of circumstances under which the Joint Lead Managers may terminate the agreement and the settlement support obligations. A summary of certain terms of the agreement and associated settlement support arrangements, including the termination provisions, is set out in Section 10.5.2.

3.7 ASX AND NZX LISTING

An application will be made to ASX not later than seven days after the date of this Prospectus for the Company to be admitted to the official list of ASX and for quotation of the Shares on ASX. The Company's expected ASX code will be KMD.

ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the official list is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.

If the Company does not make such an application within seven days after the date of this Prospectus, or if permission is not granted for the official quotation of the Shares on ASX within three months after the date of this Prospectus (or any later date permitted by law), all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.

An Application has been made to NZX for permission to list the Shares on NZX and all of the requirements of NZX relating thereto that can be complied with on or before the date of this Prospectus have been duly complied with. However, NZX accepts no responsibility for any statement in this Prospectus.

NZX takes no responsibility for this Prospectus or the investment to which it relates. Permission to list the Company on NZX and to quote the Shares on NZX is not to be taken as an endorsement by NZX of the Company.

Subject to certain conditions (including any waivers obtained by the Company), the Company will be required to comply with the NZX Listing Rules as well as the ASX Listing Rules.

3.8 COMMENCEMENT OF TRADING

It is expected that trading of the Shares on ASX (on a deferred basis) and on NZX (on a normal basis) will commence on or about Wednesday, 18 November 2009.

It is the responsibility of each person who trades in Shares to confirm their holding before trading in Shares. If you sell Shares before receiving a holding statement, you do so at your own risk. Kathmandu, the Share Registry, the Joint Lead Managers and the Milford Shareholders disclaim all liability, whether in negligence or otherwise, if you sell Shares before receiving you holding statement, even if you obtained details of your holding from the Kathmandu Offer Information Line or confirmed your firm allocation through a Broker.

Shares are expected to commence trading on ASX on a normal settlement basis on or about Friday, 20 November 2009.

3.9 SELLING SHARES ON ASX – CHESS

The Company will apply to participate in ASX's Clearing House Electronic Subregister System ("CHESS"), in accordance with the ASX Listing Rules and the ASTC Settlement Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in an electronic form.

When the Shares become Approved Financial Products (as defined in the ASTC Settlement Rules), holdings on the Kathmandu Australian Share register will be registered in one of two subregisters, an electronic CHESS subregister or an issuer sponsored subregister. The two subregisters together will make up Kathmandu's principal register of Shares in Australia. The Company will also maintain a register in New Zealand.

3.

DETAILS OF THE OFFER

The Shares of a Shareholder who is a participant in CHESS or a person sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Shares on the Kathmandu Australian Share register will be registered on the issuer sponsored subregister.

Following Settlement, Shareholders on the Kathmandu Australian Share register will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number ("HIN") for CHESS holders or, where applicable, the Securityholder Reference Number ("SRN") of issuer sponsored holders.

Shareholders on the Kathmandu Australian Share register will subsequently receive statements showing any changes to their Kathmandu shareholding. Certificates will not be issued. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring Broker, in the case of a holding on the CHESS subregister, or through the Share Registry in the case of a holding on the issuer sponsored subregister. The Company or Share Registry may charge a fee for these additional issuer sponsored statements.

3.10 SELLING SHARES ON NZX – FASTER

The Company will not issue Share certificates to successful New Zealand resident Applicants. The Company will instead participate in the Fully Automated Screen Trading and Electronic Registration ("FASTER") system. Under FASTER, Shareholders whose Shares are held on the Company's New Zealand Share register will be sent a statement of their holding on the issue of Shares to them under the Offer and on any subsequent transfers or issues, detailing the number of Shares transferred or issued to them.

FASTER is a comprehensive system for recording and completing the transfer of securities quoted on NZX markets and it provides for paperless settlement and full electronic transfer of securities.

Companies listed on NZX are required to have their share registers connected electronically to FASTER, and accordingly, that system will contain details of all New Zealand resident Shareholders except those that elect to hold their Shares on the Company's Australian Share register.

3.11 BROKERAGE, COMMISSION AND STAMP DUTY

No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer. See Section 10.9.2 for details of various fees payable by the Company to the Joint Lead Managers and certain Brokers and by the Joint Lead Managers to certain Brokers.

3.12 DISCRETION REGARDING THE OFFER

Kathmandu and the Milford Fund Shareholders, in consultation with the Joint Lead Managers, reserve the right not to proceed with the Offer, or any part of it, at any time before the issue of Shares to successful Applicants or bidders in the Retail Offer and Institutional Offer. If the Offer, or any part of it, does not proceed, the relevant Application Monies will be refunded. No interest will be paid on any Application Monies refunded.

Kathmandu, the Joint Lead Managers and the Milford Fund Shareholders also reserve the right, as agreed amongst themselves:

- to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications or bids either generally or in particular cases, reject any Application or bids, or allocate to any Applicant or bidder fewer Shares than applied or bid for; and
- to agree to a Final Price which is above or below the Indicative Price Range.

INDUSTRY OVERVIEW

4.

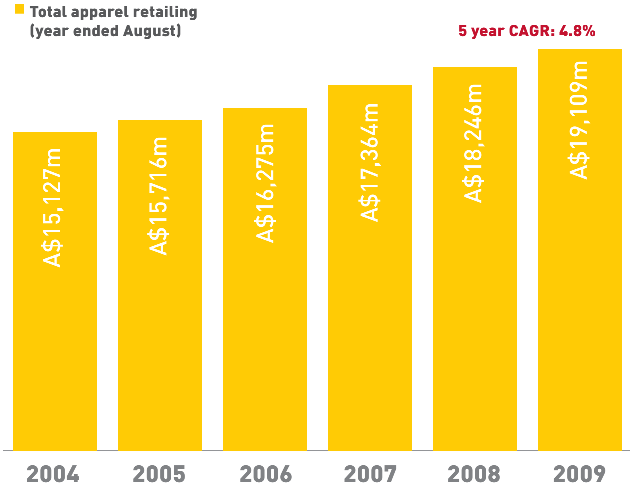
4.

INDUSTRY OVERVIEW

4.1 INTRODUCTION

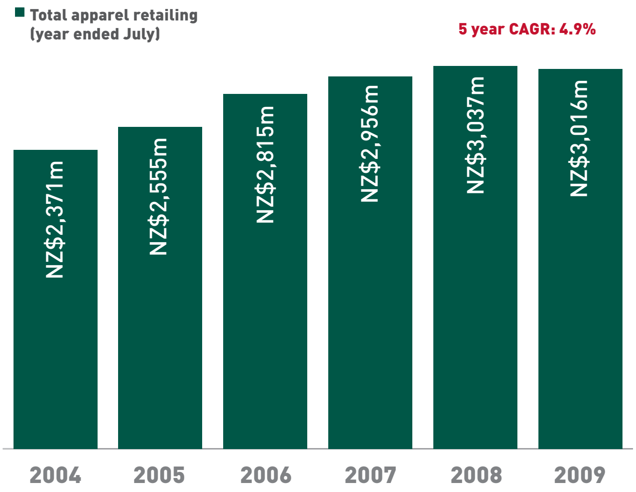
Kathmandu is a leading retailer of clothing and equipment for travel and adventure in Australia and New Zealand and has a small presence in the UK. Kathmandu's product offering generally falls into two retailing statistical categories: apparel retailing and recreational goods retailing. The sizes of the Australian apparel retail and recreational goods retailing categories for the year ended August 2009 were approximately A$19.1 billion and A$4.8 billion respectively. The sizes of the New Zealand apparel retail and recreational goods retailing categories for the year ended July 2009 were approximately NZ$3.0 billion and NZ$2.3 billion respectively.

Australian apparel retailing[1]



Source: Australian Bureau of Statistics

New Zealand apparel retailing[2]

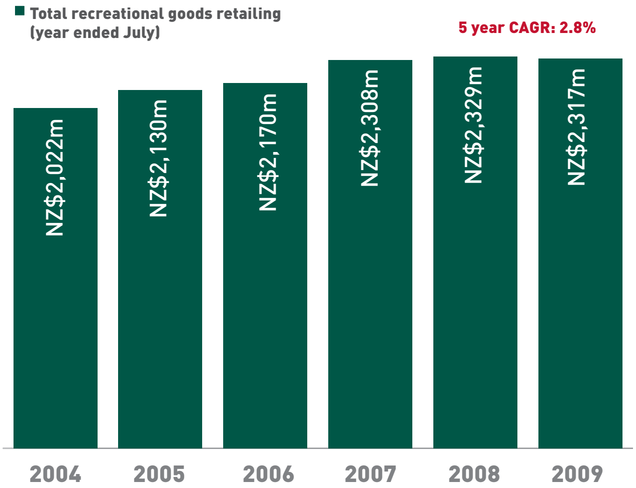


Source: Statistics New Zealand

Australian recreational goods retailing[3]

Source: Australian Bureau of Statistics

New Zealand recreational goods retailing



Source: Statistics New Zealand

Notes:

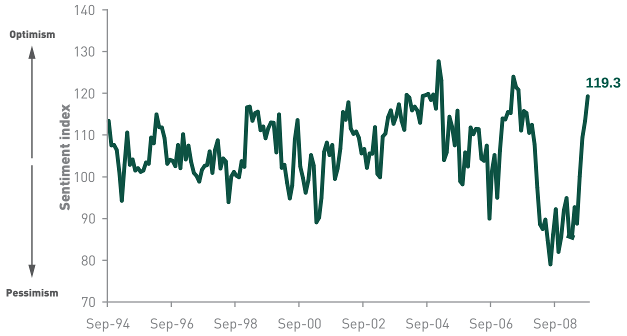
1. Defined as total clothing, footwear and personal accessory retailing.
2. Defined as total clothing and softgoods and footwear retailing.
3. Defined as other recreational goods retailing which includes sport and camping equipment retailing, entertainment media retailing and toy and game retailing.

4.2 MACROECONOMIC ENVIRONMENT

Demand for travel and adventure clothing and equipment is influenced by general economic conditions including economic growth, interest rates and employment levels as well as consumer sentiment and disposable income. The recent economic downturn caused consumer sentiment levels in both Australia and New Zealand to fall to their lowest levels in 15 years. However, in recent months, there has been a marked recovery in consumer sentiment in both Australia and New Zealand, which may have a positive impact on the broader travel and adventure clothing and equipment market.

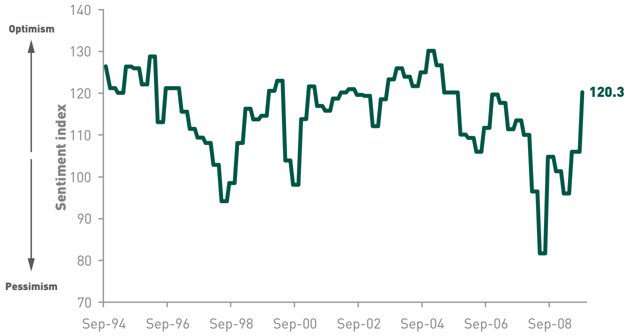
Trans-Tasman consumer confidence indices

Australia



Source: Westpac-Melbourne Institute Consumer Sentiment Index as at September 2009

New Zealand



Source: Westpac-McDermott Miller Consumer Confidence Survey and Index as at September 2009

4.3 ADDRESSABLE MARKET AND COMPETITIVE LANDSCAPE

Kathmandu divides the clothing and equipment for travel and adventure market into three categories:

- specialist: equipment and clothing intended for mountaineers and other adventure market participants who require highly technical products for their activities;
- mainstream/lifestyle: products which incorporate some of the technical characteristics of specialist products which are attractive to consumers seeking authenticity and function but not the top of the line specifications; and
- general merchandise retailers: simple clothing and equipment such as fleece, and certain backpacks and sleeping bags for use by the price sensitive consumer.

Note: Not to scale.

With affordable, technical products, Kathmandu competes in all three categories, reflecting its view that the mass market represents a significant financial opportunity where buyers will pay for technical credibility. Kathmandu provides functional, credible and quality clothing and equipment, designed to appeal to a broad market.

4.3.1. Market participants: retailers

Within the categories listed above, a number of retailers and brands/wholesalers operate under a range of business models. There are degrees of overlap between retailers and brands/wholesalers as well as with the product range of indirect competitors.

The travel and adventure gear markets in Australia and New Zealand are highly fragmented and comprise a wide range of retail formats including (but not limited to):

- specialty outdoor industry retailers including Mountain Designs, Snowgum, and Macpac in both Australia and New Zealand, Bivouac and R&R Sports in New Zealand; and Anaconda, Columbia, Aussie Disposals, Paddy Pallin, BCF, Ray's Outdoors and The North Face in Australia;
- lifestyle/sporting goods retailers: including Rebel Sport and Colorado and fashion and footwear stores such as Athletes' Foot and Surf Dive 'N' Ski; and
- general merchandise/full service department stores: including Kmart, Target, Big W, David Jones and Myer in Australia and The Warehouse and Farmers in New Zealand.

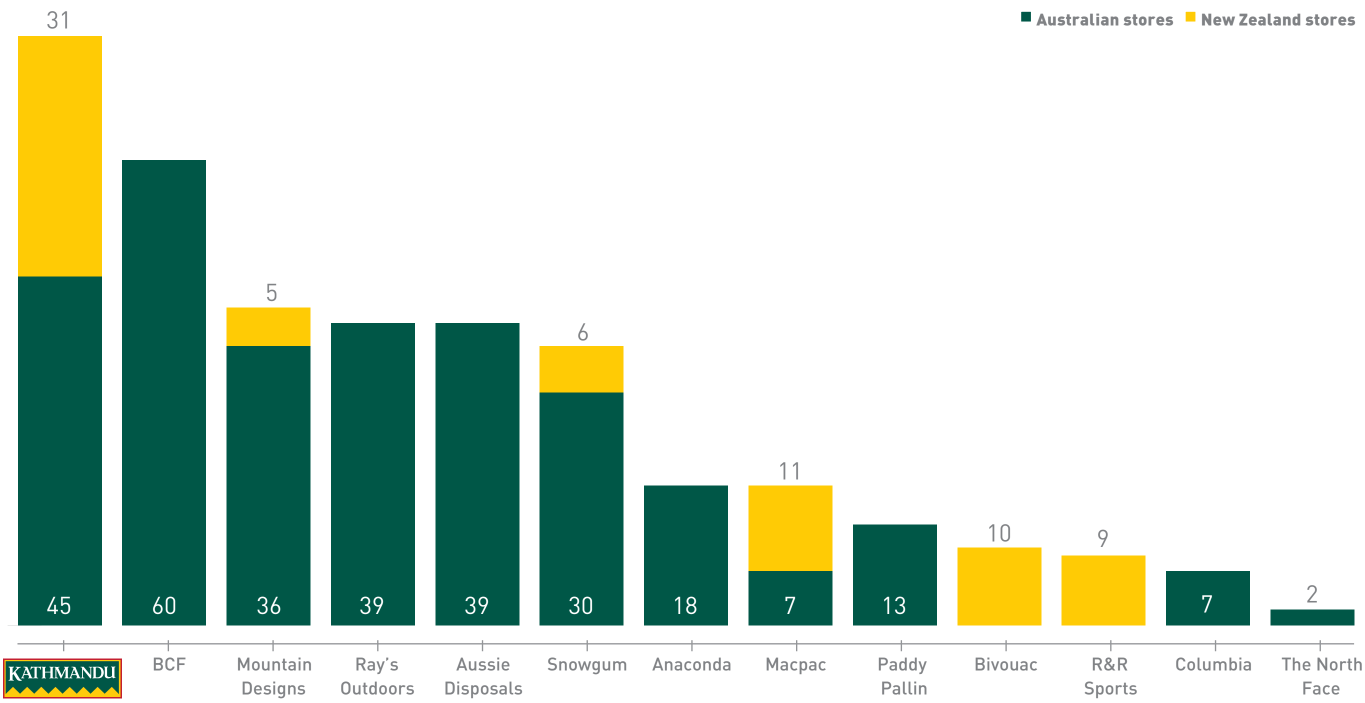
Online retailers also offer competing products.

4.

INDUSTRY OVERVIEW

Kathmandu has the largest number of stores across New Zealand and Australia compared to the specialty outdoor industry retailers listed on the preceding page. It has developed a number of different store formats to meet different market requirements, and this flexible store model has, for example, proven to be profitable across the spectrum from small towns/cities with populations of less than 30,000 to high traffic urban areas.

Kathmandu has a leading position in New Zealand and Australia



Note:
Kathmandu store numbers as at 31 July 2009, which excludes three stores that have since opened between that date and the date of this Prospectus.
Other store numbers (approximate) as at 7 October 2009.

4.3.2. Market participants: wholesalers/brand competitors

Kathmandu also competes with a number of brands which sell through specialist travel and adventure retailers, sports stores and department stores. A number of international brands have gained credibility amongst broader market consumers as a result of their technical merit and have consequently gained popularity as lifestyle wear.

As a specialist in clothing and equipment for travel and adventure focused in Australia and New Zealand, Kathmandu's advantage over many of its Northern Hemisphere brand competitors is that it designs and markets products specifically intended for each region's unique requirements and conditions. Furthermore, Kathmandu's extensive retail footprint and brand differentiate the Company from many brand competitors, and its vertical integration as a designer and retailer generally allows it to offer products to customers at very attractive price points.

There are competing brands located in Australia and New Zealand, such as Mountain Designs, which also focus on this region; however, Kathmandu has a more significant store footprint.

4.4 CUSTOMER TRENDS

The travel and adventure clothing and equipment market appeals to a broad customer base – from specialist outdoor adventurers, looking for technical products, to recreational users, buying for lifestyle and practical reasons. The market's customers span a wide range of ages and demographics.

In recent years, there has been an emphasis on activities which promote health and fitness, and government programs have been developed to encourage active and healthy lifestyles.

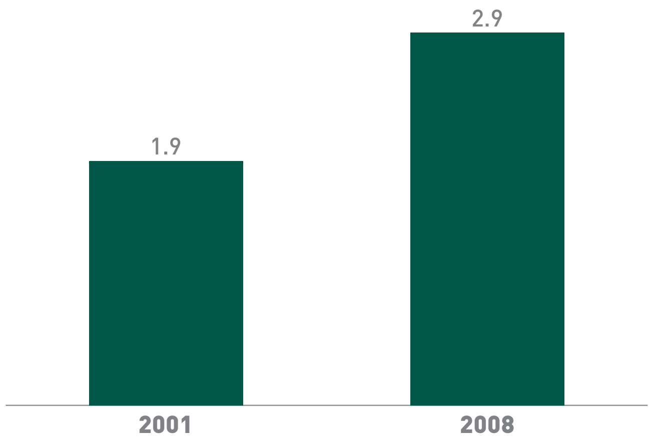
In Australia, the Federal Government has implemented the 'Measure Up' campaign as part of the Australian Better Health Initiative ("ABHI"). The 'Measure Up' campaign is for all Australians and aims to provide them with the tools and understanding to make healthy lifestyle choices. The ABHI was announced in February 2006 by the Council of Australian Governments and a total of A$500 million was assigned to the program over four years.

In New Zealand, the New Zealand Ministry of Health has launched its 'Healthy Eating – Healthy Action' campaign as part of its strategic approach to improving nutrition, increasing physical activity and achieving healthy weight for all New Zealanders.

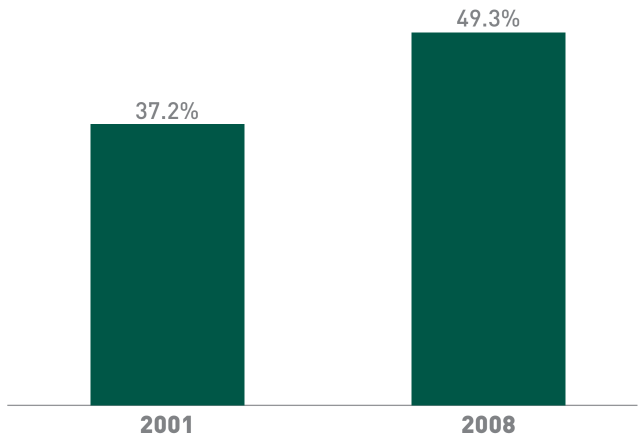
Australia and New Zealand are fitness-focused countries. More than 63% of New Zealanders and 58% of Australians were classified as highly active in a 2004 study,[1] making the New Zealand and Australian populations the first and fifth most active of the 20 countries studied.[2] Australians have become more active in the past few years, with the median frequency of participation in physical activity per week up 50% since 2001 (from two to three times) and the percentage of Australians participating in regular physical activity up 33% since 2001.[3]

1. Bauman A, Bull F, Chey T, Craig C, Ainsworth B, Sallis J et al. (2009) The International Prevalence Study on Physical Activity: Results from 20 countries. International Journal of Behavioral Nutrition and Physical Activity 2009, Vol.6: 21.
2. Countries studied comprised Argentina, Australia, Belgium, Brazil, Canada, China, Colombia, Czech Republic, Hong Kong, India, Japan, Lithuania, New Zealand, Norway, Portugal, Saudi Arabia, Spain, Sweden, Taiwan and the USA.
3. Australian Sports Commission: Participation in Exercise, Recreation and Sport Annual Report (2008).

Median frequency of participation per week in any physical activity in Australia

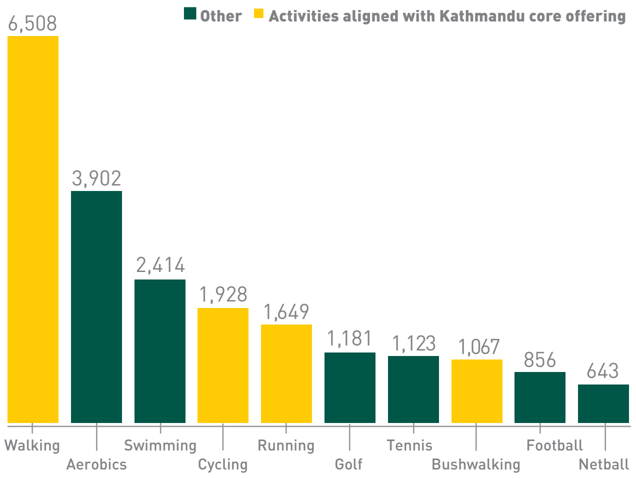


Regular participation rate in any physical activity in Australia



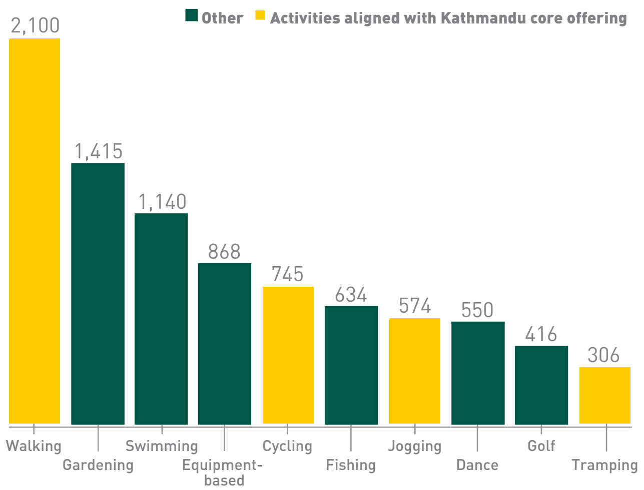
Source: Australian Sports Commission: Participation in Exercise, Recreation and Sport Annual Report (2008)

Top 10 recreation and sport activities in Australia by number of participants (000's)



Source: Australian Sports Commission: Participation in Exercise, Recreation and Sport Annual Report (2008)

Top 10 recreation and sport activities in New Zealand by number of participants (000's)



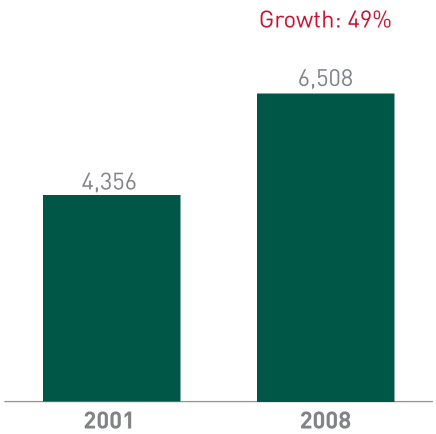
Source: Activity and participation figures from Sport & Recreation New Zealand. Sport, Recreation and Physical Activity Participation Among New Zealand Adults: Key Results of the 2007/2008 Active NZ Survey

4.

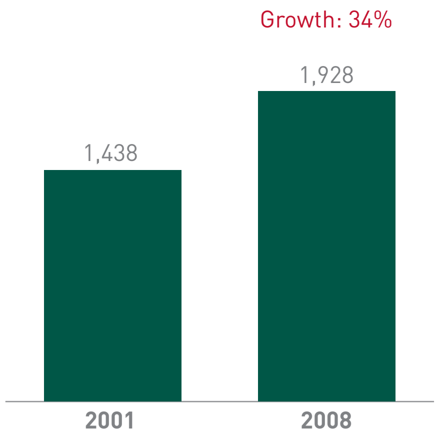
INDUSTRY OVERVIEW

Levels of participation in recreation and sport activities have increased substantially over the past few years in Australia and New Zealand. Walking, cycling, running/jogging and bushwalking/tramping, all activities which Kathmandu's products cater to, are four of the top ten sport and recreation activities in both Australia and New Zealand.

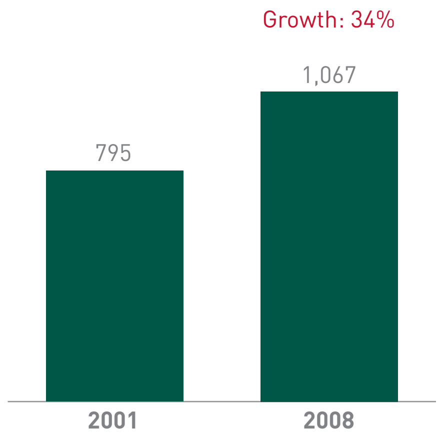
Australian participation in walking (000's)



Australian participation in cycling (000's)



Australian participation in bushwalking (000's)



Source: Australian Sports Commission: Participation in Exercise and Sport Annual Report (2008)

In addition, Australians and New Zealanders are avid travellers – a trait that is consistent with the aspirational positioning of Kathmandu's brand and the Company's travel product offering. According to Tourism Research Australia, Australians aged 15 years and over took 5.2 million international trips in the year ended 31 March 2009 with the most popular destination being New Zealand (16%) followed by the United States and Canada (10%) and the UK (8%), with 53% of the trips being for holidays. Similarly, there were 141.4 million day trips taken by Australian residents aged 15 years and over in the year ended 30 June 2009.[4] In New Zealand, the Ministry of Tourism indicated that New Zealand residents took 1.9 million international trips for the year ended 31 August 2009, with Australia being the most popular destination.[5]

Kathmandu's customer base is not limited to recreational activity participants, as its products also appeal to many customers as a lifestyle brand. Kathmandu believes that increasing the number of technical users of Kathmandu products increases the credibility of its products and its profile, which in turn can attract more lifestyle buyers.

4. Travel by Australians – June 2009 Quarterly Results of the National Visitor Survey, Tourism Research Australia, Canberra. Copyright 2009 Tourism Australia reproduced with permission.
5. New Zealand Ministry of Tourism. Outbound Travel Key Data August 2009.

5. COMPANY OVERVIEW

5.

COMPANY OVERVIEW

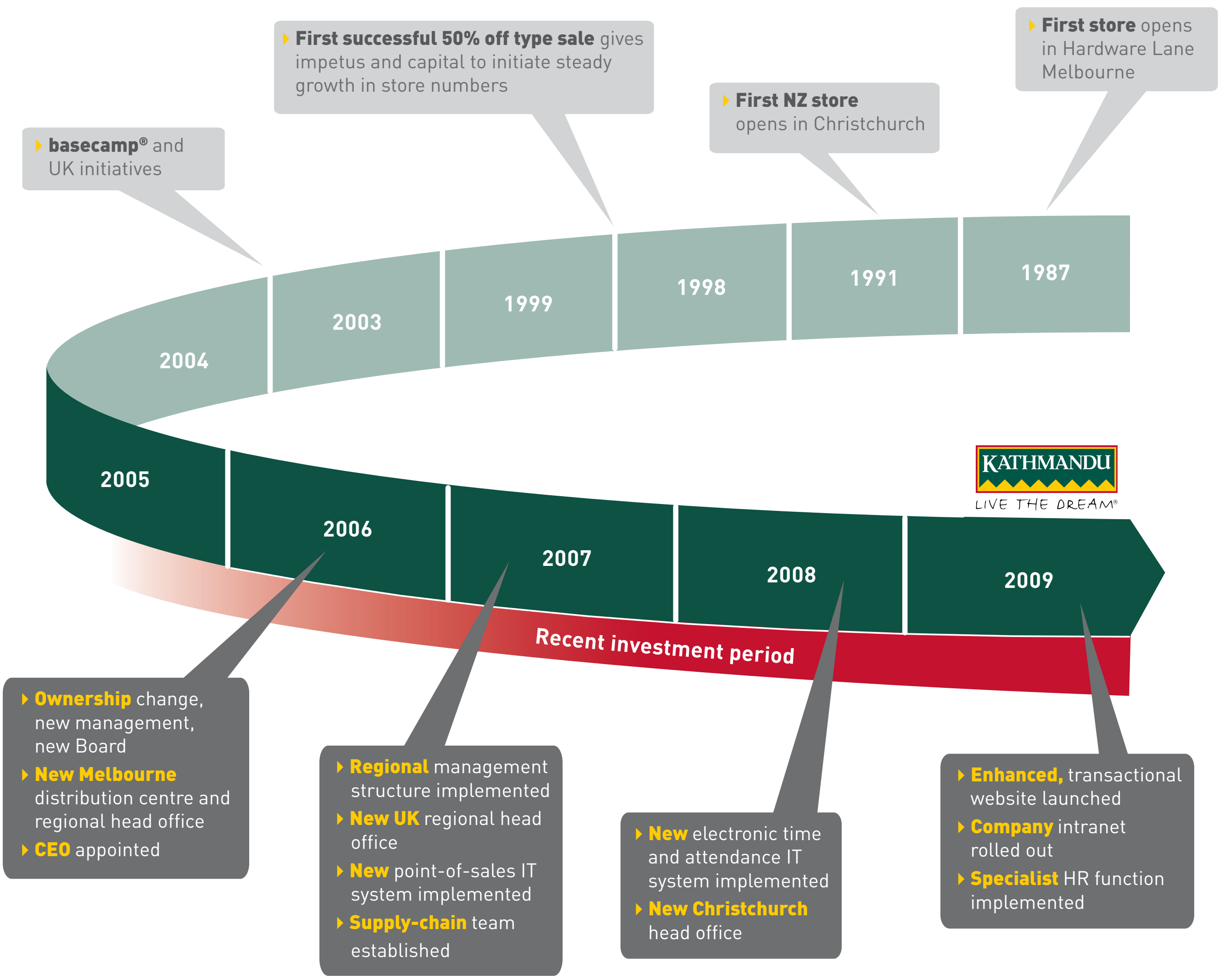
5.1 COMPANY OVERVIEW

Since its establishment 22 years ago, Kathmandu has become a leading specialist in quality clothing and equipment for travel and adventure in New Zealand and Australia.

Kathmandu has grown from a small retailer of adventure clothing and equipment to a vertically integrated business with a significant retail presence. Approximately 95% of sales in Kathmandu stores are Kathmandu-branded products, manufactured by third parties using Kathmandu sourced or specified material and designs. The Company does not sell these products via wholesale channels and consequently achieves both a wholesale and a retail margin on these sales.

Kathmandu has a track record of growth through new store rollout and believes there is significant further scope to expand. The Company's store rollout will continue to be core to its growth strategy. Twelve new stores are planned to open in FY2010, of which three have already opened and a further three are expected to open before Christmas. There are 70 locations in Australia and New Zealand (including these 12 stores) to assess for suitable new store sites. In addition, Kathmandu believes that there are further opportunities to drive earnings by improving existing store sales and margins through refurbishment, enhanced marketing strategies and expansion of product offerings.

5.2 HISTORY AND RECENT INVESTMENT PERIOD



Kathmandu opened its first store in 1987 and through the 1990s remained a small specialist outdoor retailer, manufacturing many of its own products. During the 1990s, Kathmandu scaled back its manufacturing operations and shifted to an offshore sourcing model. By 2002, Kathmandu no longer manufactured any products in-house. The shift to offshore manufacturing enabled Kathmandu to access quality products at a lower cost which, combined with the Company's in-house design process and Company-operated retail distribution network, has helped generate its strong margins.

In 2003/2004, Kathmandu commenced its UK initiative (where it now has six stores) as well as launching basecamp® in New Zealand – the Company's dedicated family camping equipment offering.

In 2006, Kathmandu was acquired by a consortium of private equity funds and subsequently a new management team was introduced. Since the acquisition, Kathmandu has invested heavily in its business platform, including staff, IT infrastructure and distribution capacity, and its store footprint has grown from 46 stores in FY2006 to 82 stores at 31 July 2009. Initiatives and recent investment include:

- establishing a new Melbourne distribution centre with surplus capacity to accommodate the Company's planned expansion throughout Australia;
- implementing a regional management structure;
- implementing a new supply chain function;
- establishing a new UK head office and warehouse to support future growth in the region;
- installing a new point-of-sales system and electronic time and attendance and rostering;
- establishing a much larger new Christchurch head office to support future growth in the region, a specialist HR function and the Company's intranet site; and
- launching an enhanced website with online transactional capabilities.

5.3 THE KATHMANDU BRAND

Kathmandu's brand is at the core of its business. With a 22 year track record, it has a heritage as a specialist in clothing and equipment for travel and adventure.

Kathmandu positions its brand to represent quality travel and adventure clothing and equipment with technical credibility at great value. Kathmandu aspires to help its customers in living their dreams.

Essential to the appeal of the Kathmandu brand is its accessibility. Kathmandu products are accessible to consumers given the Company's varying price points and its growing store footprint.

Amongst outdoor enthusiasts in New Zealand and Australia, Kathmandu is the #1 recognised outdoor clothing brand with 99% and 88% recognition respectively.[1]

'Live the Dream' brand essence

KATHMANDU
LIVE THE DREAM®

- powerful, emotive and aspirational
- evokes the essence and aspiration of travel and adventure

1. Source: GORE–TEX® brand survey June 2008 by W L Gore & Associates (Australia) Pty Ltd 'Kathmandu brand awareness' comprises both unprompted recognition of the Kathmandu brand, and recognition of the Kathmandu brand when prompted by the surveyor.

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COMPANY OVERVIEW

5.4 BUSINESS MODEL

Design → **Manufacture and logistics** → **Stores**

Kathmandu's products are designed to suit specific New Zealand and Australian requirements, such as terrain and climate. The technical aspects of Kathmandu's products make them less seasonal compared to fashion apparel. A key focus for Kathmandu is to develop products with technical credibility and broad market appeal across a range of price points.

The Company's supply chain is organised by region and is focused on a process of pre-loading and replenishment as required by the Company's promotional sales strategy. The product journey for Kathmandu begins with the in-house design and third party manufacturing of Kathmandu's own-branded product. Approximately 80% of Kathmandu product is manufactured in China, with the remainder primarily around the rest of Asia, Europe and North America. The majority of products are shipped from these manufacturers to Kathmandu's distribution centres in each of its countries of operation. The Company has recently successfully piloted direct shipping of selected product from manufacturers to stores, reducing demand on our distribution centres.

Kathmandu typically contracts with suppliers using materials and components sourced or specified by Kathmandu with pricing and volume fixed for each order. Suppliers to Kathmandu typically make to order, meaning the lead times on orders are approximately three to six months. Kathmandu's vertically integrated approach to bringing product into the business has enabled it to generate gross profit margins that capture the equivalent of the wholesaler's margin in addition to a retail margin.

The Company's top 10 suppliers account for approximately 58% of its product and 45 suppliers account for 90% of the Company's product. The strong relationships Kathmandu has established with many of its suppliers, over a number of years, and the high volumes of product ordered, assist the Company to achieve attractive buying terms.

With own-brand product accounting for more than 95% of sales, Kathmandu has an advantage over many of its competitors in that the Company does not compete with others for shelf space; controls its own merchandising and relies on its own marketing strategy.

5.5 MARKETING ACTIVITY AND PRODUCT STRATEGY

5.5.1 Marketing activity

The Kathmandu marketing function is responsible for the development and implementation of the marketing strategy including brand planning, customer research, targeted database development, annual advertising and promotions, store merchandising and new store design.

Brand planning

The brand is at the heart of all Kathmandu marketing. Brand planning supports Kathmandu's positioning as a specialist provider of quality clothing and equipment for travel and adventure and drives brand awareness and preference.

Customer research

The Kathmandu marketing and product teams work together to understand customer requirements, studying market trends and translating these into product and pricing strategies. This information also sets the future product development plans and priorities.

Targeted database development

The Summit Club database is a key source of information supporting Kathmandu's customer research. With over 285,000 members (as at 31 July 2009), the database represents approximately 30% of total sales and allows Kathmandu to better understand its customers and their interests, purchasing habits and communication preferences.

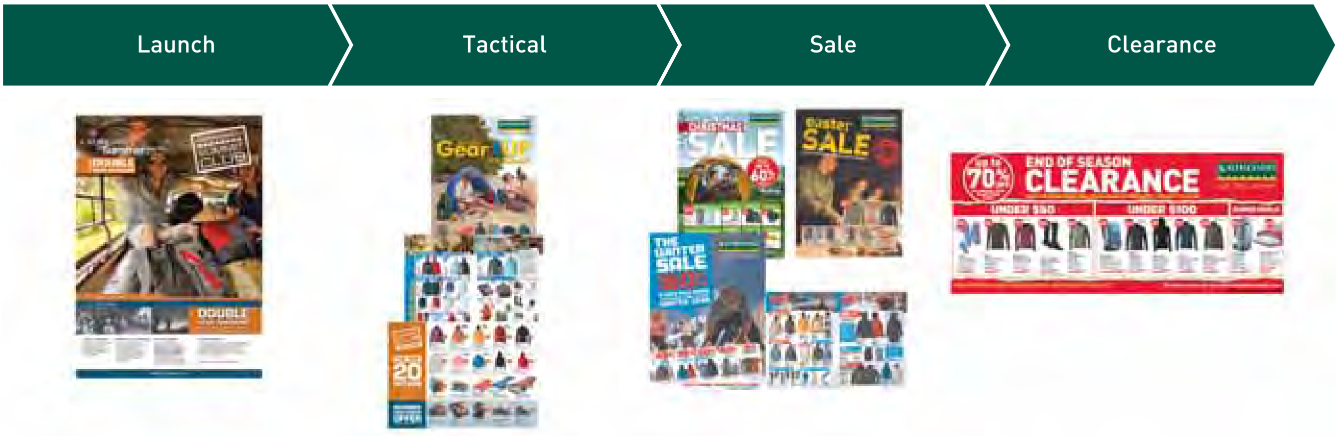
By segmenting the customer base, Kathmandu can deliver targeted communications and promotions to market efficiently and productively.

The Summit Club holds significant scope for growth and development and represents a major opportunity for Kathmandu.

Annual advertising and promotion

Kathmandu communicates regularly with the market and has historically spent between 5.0% and 6.5% of annual sales on marketing initiatives. Forecast spend in FY2010 is also within this range. Media spend in dollar terms is amongst the highest of its major retail competitors in the specialist outdoor – travel and adventure market across Australia and New Zealand.

The marketing program commences early in the design process, with the team engaged in testing the product ranges in a variety of locations, recently including Borneo, Hokkaido and Morocco. Evocative travel and adventure shots are taken in these locations, to reflect and capture the essence of Kathmandu, with the experience and output used to promote the new ranges in stores.



For each summer and winter range launch, the marketing objective is to stimulate interest in the new products on offer. Kathmandu uses billboards, in-flight and specialist outdoor magazine advertisements, videography (on the internet), newsletters to Summit Club members, and Kathmandu ‘Product Tester’ promotions (giving members the opportunity to test Kathmandu gear in the field).

Following launch, tactical marketing activity including promotions and events is used to ensure there are competitively priced offers in stores.

The main marketing effort and most significant in terms of both spend and profile supports the major Kathmandu sales – Winter, Christmas and Easter. The majority of Kathmandu’s annual product sales occur during these key periods. Television, press (including brochure inserts), radio and online advertising are all used, further supported by prominent instore point of sale and visual merchandising. There is also communication to the Summit Club through direct mail and e-campaigns. Upon completion of a sale, remaining products may be classified as clearance items and some products are distributed to Kathmandu clearance stores.

An incremental and growing marketing and sales channel for Kathmandu is its website, where customers can now buy a selected range of products.

The core marketing program also includes Kathmandu sponsorships across Australia and New Zealand. These include outdoor focused initiatives such as The Kathmandu Maximum Adventure Series in Australia and support for Outward Bound in New Zealand. Corporate social engagement programs include the Australian Wildlife Conservancy and in New Zealand, the First Foundation.

Store merchandising and new store design

Development of the store environment is fundamental to the customer experience. The purpose of the store design is to evoke a sense of travel and adventure in Kathmandu customers. The new store fitout, as demonstrated in the new Canberra and Queenstown stores, aims to capture the essence of the brand and will form the basis for future stores in Australia and New Zealand.

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COMPANY OVERVIEW

5.5.2 Product strategy

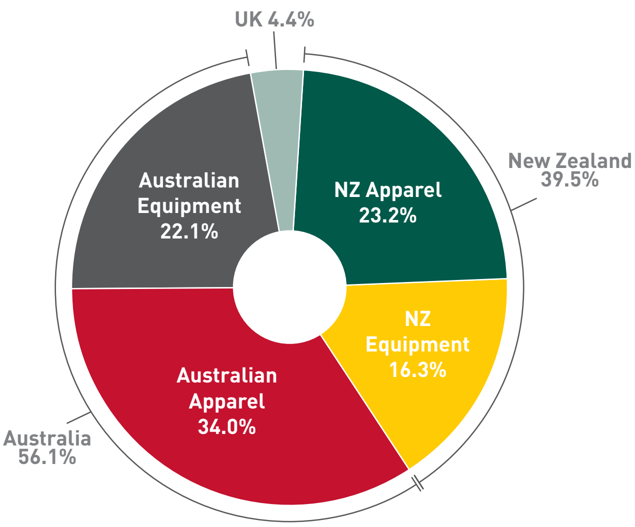
Kathmandu has invested significant resources in its product design innovation and quality. Since 2006, the product team has grown from 23 to 34 people.

A key strategy for the product design team has been to ensure it obtains products at multiple price points. This ‘good, better and best’ product strategy allows Kathmandu to create quality products with features and price points to meet the needs of different customer segments within the market. For instance, in its thermals category, the Company offers polypro (good), thermaplus (better) and merino (best). This is consistent with Kathmandu’s strategy of providing technically credible products to a broad customer base.

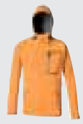
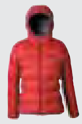
A key component of ongoing sales growth is the continual introduction of innovative products. This is a core competency of Kathmandu which has a long track record of designing, sourcing, marketing and retailing products that appeal to the needs of its customer base.

Kathmandu also offers specialised product lines such as Kathmandu Kids, a children’s range, and basecamp®, a family camping offering. basecamp® products are sold through the company’s large stores with key products including tents and shelters, furniture, lighting and kitchenware. As at 31 July 2009, the basecamp® offering was available in 17 stores in New Zealand and a very limited range was available in selected stores in Australia. However, a full basecamp® offering is being introduced in up to six Australian stores during FY2010.

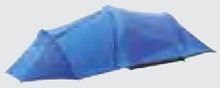
Kathmandu’s product breakdown



Key apparel product lines

- Technical wear 
- Down jacket 
- Thermals 
- Fleece 
- Woven casual wear 
- Merino 

Key equipment product lines

- Packs 
- Bags 
- Sleeping bags 
- Tents 
- Camping accessories 
- Footwear and socks 

5.6 CUSTOMER OVERVIEW AND SUMMIT CLUB

5.6.1 Customer overview

Kathmandu has three target customer segments – Adventurous Families, Young Go Getters and Older Outdoor Enthusiasts – and tailors its product offering and price points accordingly. This strategy has helped Kathmandu to develop a strong customer base.

Young Go Getters

- 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 busy lives

Adventurous Families

- Typically professionals who enjoy the outdoors
- Higher than average incomes
- Have children

Older Outdoor Enthusiasts

- Enjoying their freedom as their children are partly or fully grown
- Seeking new challenges and interests through outdoor experiences
- Many are empty nesters

5.6.2 Summit Club

Summit Club, Kathmandu's successful customer loyalty program, had over 285,000 members at 31 July 2009, up 61% from FY2008. This group accounted for approximately 30% of total Kathmandu sales in FY2009.

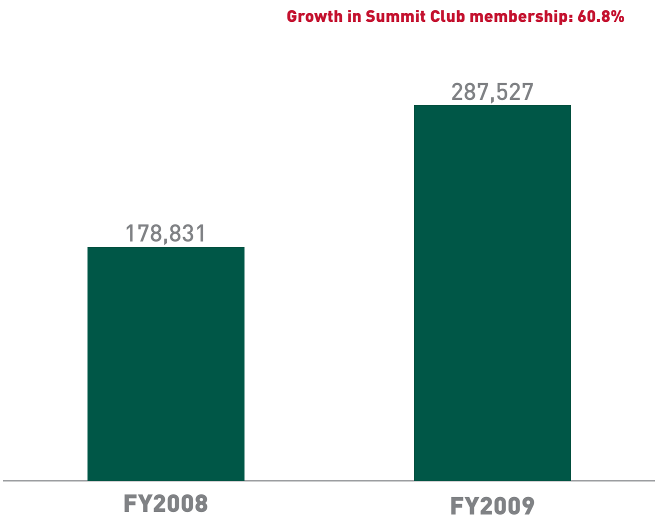
For A$10 or NZ$10 a year, Summit Club members receive discounts on full price products, early notification of sales and other promotions, regular newsletters and special members' only days. The annual membership renewal fee is waived if the customer spends $100 or more each year.

Since Kathmandu Summit Club members are either active shoppers or consciously renew their membership, this ensures the database is active and provides insights into customer preferences and trends (as detailed in Section 5.5.1).

The Summit Club is a cornerstone of Kathmandu's marketing activity, providing a platform from which to market directly to customers and target their specific needs.

A number of initiatives are underway to further develop and maximise the potential of the Summit Club.

Summit Club membership



5.

COMPANY OVERVIEW

5.7 STORE FOOTPRINT AND GEOGRAPHICAL PRESENCE

5.7.1 Store footprint

Kathmandu's New Zealand and Australian stores operate profitably 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, and there is large variation in size (population and catchment) of markets that currently have a Kathmandu store.

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 central business districts ("CBDs") of major cities (the state capitals of Australia and the four largest cities in New Zealand);
- Destination – located outside the CBDs 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 only one Kathmandu store;
- Clearance – identified within the business as such, specifically selling clearance lines and advertised as clearance stores.

Kathmandu has 15 stores in New Zealand over 600m^2 compared to six in Australia.

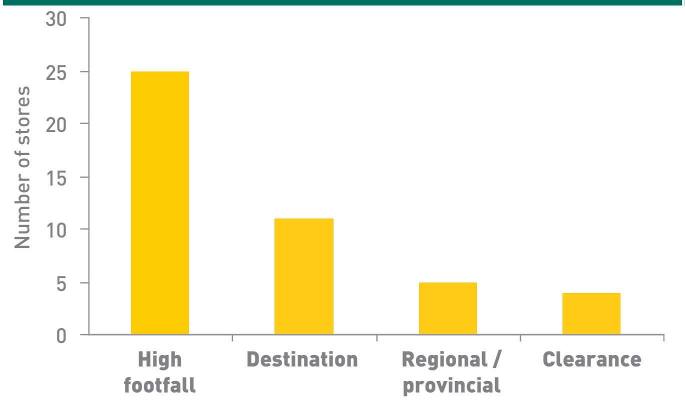
New Zealand stores are generally destination or regional/provincial locations and are larger.

Australia stores are generally high footfall locations and smaller.

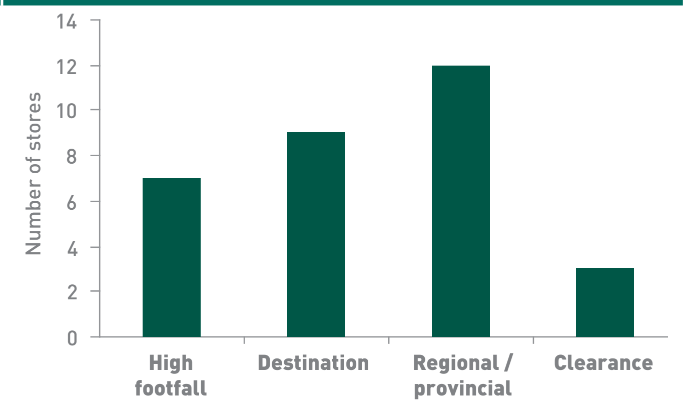
The variation between the two countries reflects:

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

Australian stores



New Zealand stores



5.7.2 Geographical presence

As at 31 July 2009, Kathmandu operated 82 stores across Australia, New Zealand and the UK, with plans to open an additional 12 stores in FY2010.

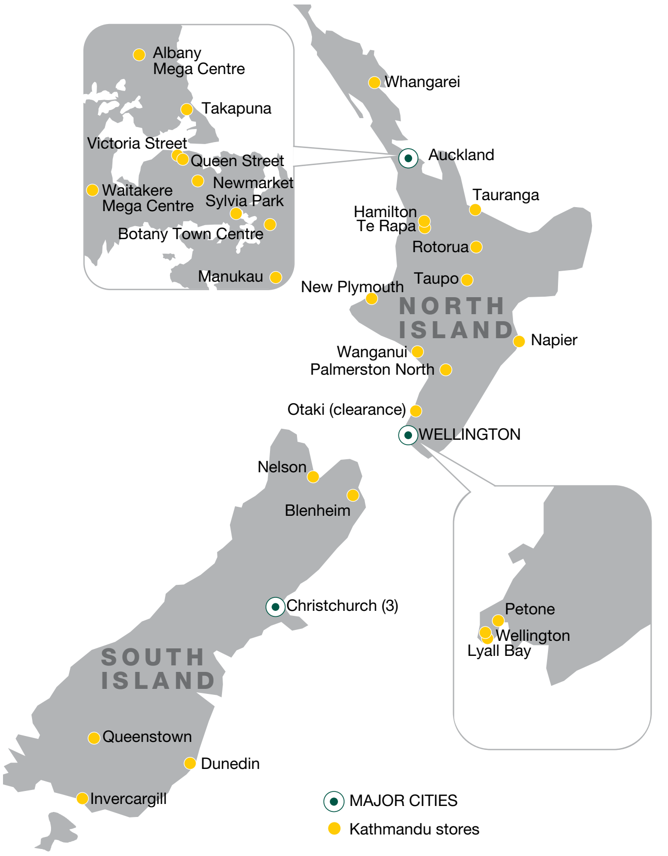
New Zealand business

In New Zealand, Kathmandu operated 31 stores as at 31 July 2009. It is represented in all major metropolitan areas and a number of small towns.

Between 31 July 2006 and 31 July 2009, 11 new stores have been opened in the New Zealand market and management has identified a further 18 potential locations for consideration as new stores (including clearance stores). Every store in New Zealand is profitable.

The Company operates out of a new head office and 3,600m^2 distribution centre facility, located on the outskirts of Christchurch. The Company considers it has sufficient warehouse capacity for its current plans for new stores in New Zealand.

Geographic distribution of Kathmandu's New Zealand store portfolio



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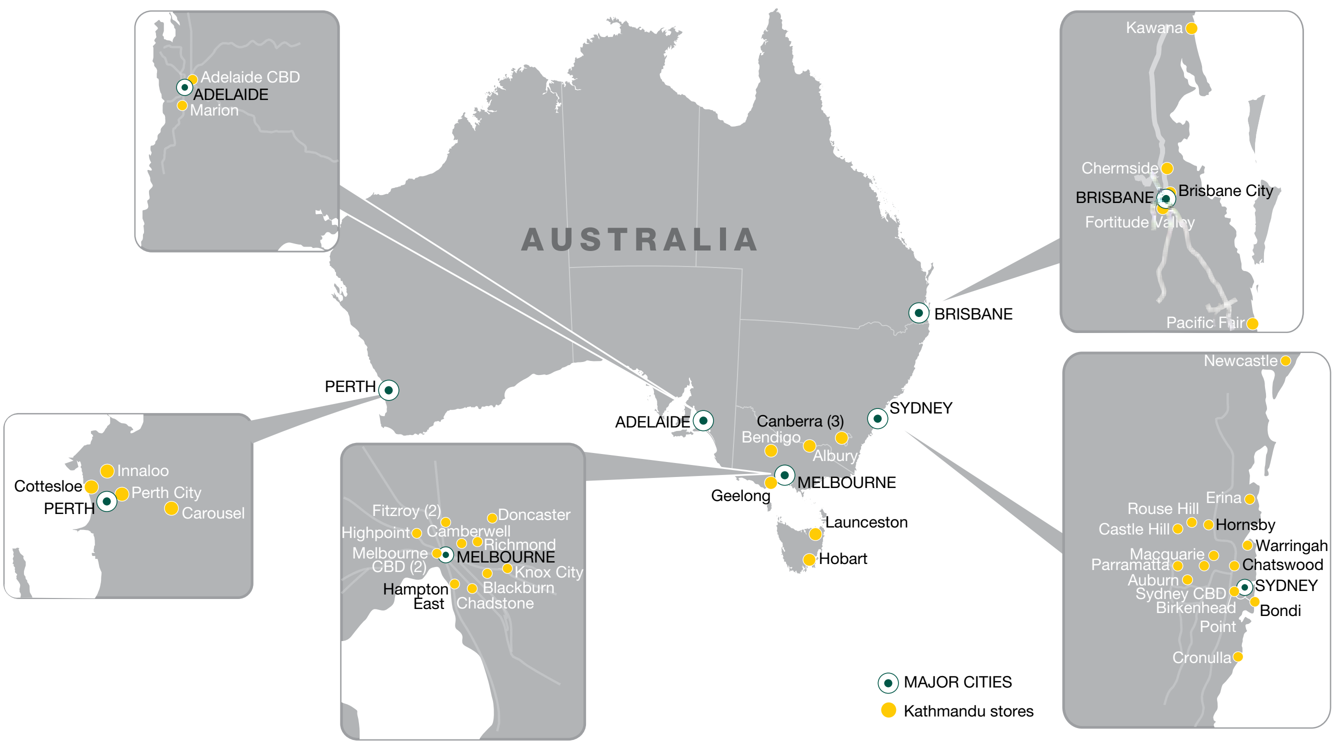
COMPANY OVERVIEW

Australian business

In Australia, Kathmandu operated 45 stores as at 31 July 2009. While Kathmandu is represented in all major metropolitan areas, store penetration in Australia remains low relative to New Zealand. Kathmandu plans to open additional stores within cities where it already has a retail presence, as well as in a number of regional areas. Between 31 July 2006 and 31 July 2009, 23 new stores have been opened in Australia. Every store in Australia is profitable.

The Company moved its Australian head office and distribution centre to new premises in Melbourne in 2006. The site has 9,200m² of warehouse space which the Company considers provides sufficient capacity for its current plans for new stores in Australia.

Geographic distribution of Kathmandu's Australian store portfolio



UK business

Kathmandu has a small UK business which it began in FY2004. As at 31 July 2009, it operated six stores with four in London and one in each of Brighton and Bristol. Four out of the six stores in the UK make a small profit with the two stores yet to be profitable open for less than 12 months. The Company's UK office and $550m^2$ distribution centre are located in Oxford. There are currently no plans to open additional stores in the UK in FY2010.

Geographic distribution of Kathmandu's UK store portfolio

5.8 GROWTH STRATEGY

Kathmandu intends to drive sales growth through:

- continuing the store rollout in Australia and New Zealand;
- optimising its existing store footprint;
- introducing new products; and
- continuing to develop its online capabilities through its new transactional website.

In addition to these sales growth strategies, Kathmandu has opportunities to enhance profitability through controlling cost as the business grows, through further investing in systems and technology to deliver efficiencies and savings, including potentially through a reduction in supply chain costs and lead times and improved inventory management.

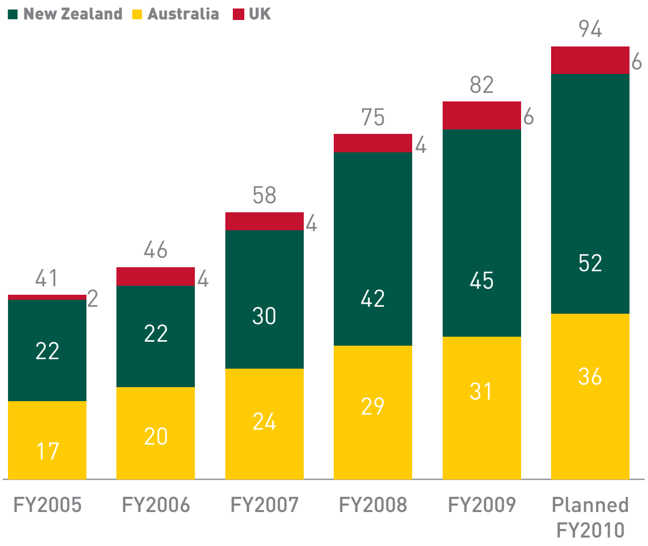
5.8.1 New store rollout

Kathmandu has identified 70 locations in Australia and New Zealand to assess for suitable new store sites in the next three to five years, including the 12 it plans to open in FY2010. The Company's rollout strategy has proven successful to date with no loss making stores in the 45 stores in Australia or 31 stores in New Zealand open as at 31 July 2009. While results vary from store to store, most stores achieve profitability in a relatively short timeframe from opening.

5.

COMPANY OVERVIEW

Kathmandu's store rollout profile



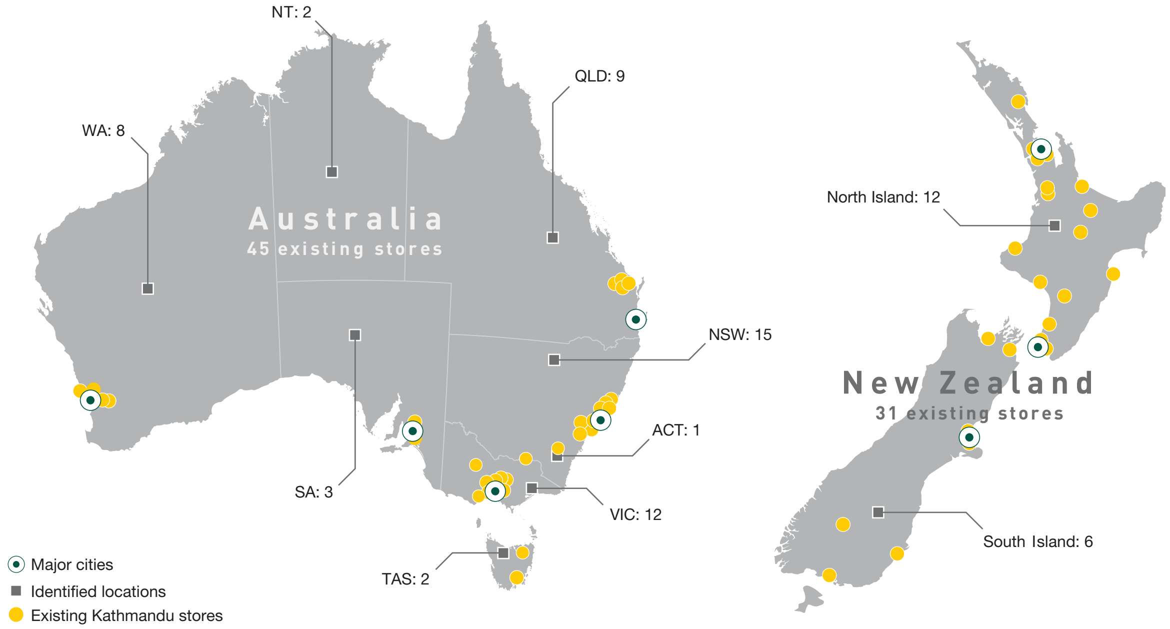
Kathmandu follows a rigorous process in identifying locations for future stores and the optimal store format for each targeted location. In considering markets, management assesses the population and catchment of the given market. The Company analyses the appropriate store size, format and range offer for the market based on available locations, rent, and the potential customers in the market.

Based on market characteristics, the Company estimates a turnover which is benchmarked against stores in its existing portfolio that have similarities. The priority of each store is also assessed with reference to factors such as expected sales, potential efficiencies (e.g. advertising catchment), earnings contribution, and existing stores.

	Example store rollout precedents[1]	
Store type	Large, New Zealand	Small, Australia
Opening date (FY2007)	Early 2007	Late 2006
Fitout capex	NZ$0.7 million	A$0.4 million
FY2008 sales	NZ$3.7 million	A$2.0 million
FY2008 store EBITDA margin	33%	22%
FY2009 sales	NZ$3.9 million	A$2.2 million
FY2009 store EBITDA margin	41%	26%

Notes:
1. Actual historical store case studies. Note, past performance at a particular location is not necessarily indicative of future performance at those or other locations.

Identified locations to consider for further store rollout throughout Australia and New Zealand



5.8.2 Store improvements

Kathmandu believes it also has room to grow sales through improvements to its store portfolio. Refurbishments, increasing store sizes, and tailoring product offering to the specific market requirements have been identified as strategies to drive top line growth. The Company intends to refurbish 13 stores in FY2010.

5.8.3 Product opportunities

Kathmandu offers a broad range of quality clothing and equipment for travel and adventure. The Company has scope to further improve the breadth and the depth of the range, offering more product categories and more options within each category to better suit Kathmandu's customer base.

5.8.4 Efficiency gains

Kathmandu believes it can make further efficiency gains and better control its cost base as it grows, with opportunities to leverage its buying power, reduce supply chain costs and lead times and improve inventory management.

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BOARD, MANAGEMENT
AND CORPORATE GOVERNANCE
6.

6.

BOARD, MANAGEMENT AND CORPORATE GOVERNANCE

6.1 BOARD OF DIRECTORS

From left to right: John Harvey, Mark Todd, Sandra McPhee, John Holland, Peter Halkett and James Strong.

Name	Position
James Strong	Chairman
Peter Halkett	Managing Director and Chief Executive Officer
Mark Todd	Finance Director and Chief Financial Officer
John Harvey	Director
John Holland	Director
Sandra McPhee	Director

James Strong AO Chairman

Mr Strong is currently the Chairman of Woolworths and Insurance Australia Group and is a director of Qantas Airways, IAG Finance New Zealand and the Australian Grand Prix Corporation.

Previously, Mr Strong was the Chairman of Rip Curl Group and Corrs Chambers Westgarth. Mr Strong was also the Chief Executive Officer of Australian Airlines from 1986 to 1989 and the Managing Director and Chief Executive Officer of Qantas Airways from 1993 to 2001.

Mr Strong ordinarily resides in Sydney, Australia.

Peter Halkett Managing Director and Chief Executive Officer

Mr Halkett joined Kathmandu in 2006 and has directed the growth strategy for the business throughout the period of current ownership.

Mr Halkett has had a management career with extensive retail experience including Chief Executive Officer roles in New Zealand and the United Kingdom. The companies he has led include two that were publicly listed, in particular Pacific Retail Group.

Mr Halkett ordinarily resides in Christchurch, New Zealand.

Mark Todd Finance Director and Chief Financial Officer

Mr Todd joined Kathmandu in 1998 when the business had 11 stores, following previous financial management experience in both the apparel and retail sectors

Mr Todd has been Kathmandu's senior financial executive for 11 years, a Director of various Group companies and manager of the New Zealand business from 2004 to 2006.

Mr Todd is the Company Secretary.

Mr Todd ordinarily resides in Christchurch, New Zealand.

John Harvey Non-Executive Director

Mr Harvey is a professional director with a background in accounting and financial services. Mr Harvey has over 35 years professional experience, including 23 years as a partner of PricewaterhouseCoopers and eight years as Auckland Managing Partner and as a member of the PricewaterhouseCoopers Board and Executive Committee.

Mr Harvey has specialist industry knowledge covering a range of sectors including retail, technology, entertainment, port, manufacturing, distribution and financial services. He also has extensive experience in financial reporting, information systems and processes and governance, business evaluation, acquisition and merger and takeover reviews.

Mr Harvey is currently a non-executive director of DNZ Property Fund, Port Otago and NZ Opera.

Mr Harvey ordinarily resides in Auckland, New Zealand.

John Holland Non-Executive Director

Mr Holland is a partner in the national New Zealand law firm of Chapman Tripp and specialises in general corporate and commercial law. Mr Holland was a Board member of Chapman Tripp for six years until 31 March 2009.

Mr Holland's securities law experience includes acting on initial public offerings, advising on employee share schemes and in the private equity area. Mr Holland has been a member of the Securities Commission of New Zealand since January 2007 and is an accredited director of the New Zealand Institute of Directors.

Mr Holland ordinarily resides in Christchurch, New Zealand.

Sandra McPhee Non-Executive Director

Ms McPhee is a professional director with an executive career background in sales and marketing including 10 years with Qantas Airways. Ms McPhee also served as Chief Executive Officer of the Ansett/Traveland group which comprised a network of 250 retail travel and franchise stores.

Ms McPhee is currently a non-executive director of AGL Energy and Tourism Australia and Deputy Chairman of St Vincent's and Mater Health and the Art Gallery of New South Wales. She is also a member of the Advisory Council of JP Morgan and Advisory Board of MMC.

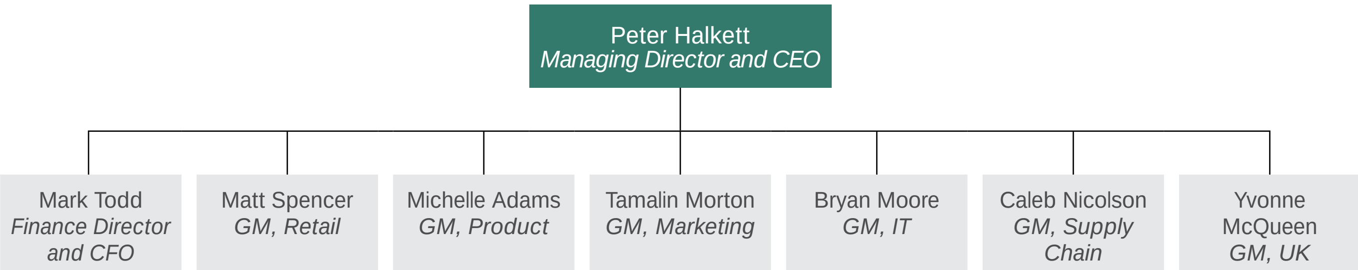
Previous non-executive roles include Coles Group, Australia Post, Perpetual, Primelife and South Australia Water.

Ms McPhee ordinarily resides in Sydney, Australia.

6.2 MANAGEMENT

The below diagram shows the current senior management structure of Kathmandu.

Management structure



Name	Title	Background
Peter Halkett	Managing Director and Chief Executive Officer	Refer to Section 6.1.
Mark Todd	Finance Director and Chief Financial Officer	Refer to Section 6.1.
Matt Spencer	General Manager, Retail	Joined Kathmandu in 2007 after over 10 years in operational and planning roles with Shell and then Coles, in particular with key responsibility for the initial establishment of the Coles Express business.
Michelle Adams	General Manager, Product	Joined Kathmandu in 2009 following extensive product and brand management experience with Pacific Brands and Canterbury.
Tamalin Morton	General Manager, Marketing	Joined Kathmandu in 2007, having had previous marketing roles with the Coles Group and Bass plc in the UK, with extensive experience in marketing management and brand strategy in both groups.
Bryan Moore	General Manager, Information Technology	Joined Kathmandu in 1999 and has had responsibility for all Kathmandu's information technology systems development throughout the majority of his time at the Company.
Caleb Nicolson	General Manager, Supply Chain	Joined Kathmandu in this newly created role in 2007, after eight years with The Warehouse, where he had responsibility for delivering change across the supply chain and the merchandise function.
Yvonne McQueen	General Manager, UK	Joined Kathmandu in May 2007 and has over 20 years of retail experience. Worked for Virgin Retail for over 12 years in area and regional management roles, and prior to joining Kathmandu, was Retail Strategy Manager for Gap UK.

6.

BOARD, MANAGEMENT AND CORPORATE GOVERNANCE

6.3 CORPORATE GOVERNANCE

The Board is responsible for the overall corporate governance of Kathmandu, including adopting the appropriate policies and procedures and seeking to ensure Kathmandu Directors, Management and employees fulfil their functions effectively and responsibly. The Board has created a framework for managing Kathmandu including adopting relevant internal controls and a risk management process which it believes are appropriate for Kathmandu's business.

The main policies and practices adopted by Kathmandu, which will take effect from Listing, are summarised below.

6.3.1 Board Charters of Directors and its committees

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

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

6.3.2 Board committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. The Board has established the Audit and Risk Committee and the Remuneration and Nomination Committee.

Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of Kathmandu, relevant legislative and other requirements and the skills and experience of individual Directors.

Audit and Risk Committee

Under its charter, this committee must have at least three members, a majority of whom must be independent Directors and all of whom must be non-executive Directors. Currently, all the non-executive Directors are members of this committee. John Harvey will act as chairman of the committee.

The primary role of this committee includes:

- overseeing the process of financial reporting, internal control, continuous disclosure, financial and non-financial risk management and compliance and external audit;
- monitoring Kathmandu's compliance with laws and regulations and Kathmandu's own codes of conduct and ethics;
- encouraging effective relationships with, and communication between, the Board, Management and Kathmandu's external auditor; and
- evaluating the adequacy of processes and controls established to identify and manage areas of potential risk and to seek to safeguard the Company's assets.

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

Remuneration and Nomination Committee

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

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

6.3.3 Risk management policy

The identification and proper management of Kathmandu's risk are an important priority of the Board. Kathmandu has adopted a risk management policy appropriate for its business. This policy highlights the risks relevant to Kathmandu's operations, and Kathmandu's commitment to designing and implementing systems and methods appropriate to minimise and control its risk. The Audit and Risk Committee is responsible for monitoring risk management and establishing procedures which seek to provide assurance that major business risks are identified, consistently assessed and appropriately addressed.

6.3.4 Continuous disclosure policy

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

6.3.5 Securities trading policy

Kathmandu has adopted guidelines to take effect from Listing for dealing in securities which are intended to explain the prohibited type of conduct in relation to dealings in securities under the Corporations Act and the Securities Markets Act 1988 (NZ) and to establish a best practice procedure in relation to Directors', management's and employees' dealings in Shares in Kathmandu.

Subject to the overriding restriction that persons may not deal in Shares while they are in possession of material price-sensitive information, Directors and management will only be permitted to deal in Shares during certain 'window periods', such as following the annual general meeting, the release of Kathmandu's full and half year financial results or the release of a disclosure document offering shares in Kathmandu. Outside of these periods, Directors and management must receive clearance for any proposed dealing in Shares.

6.3.6 Code of Conduct

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

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

6.3.7 Communications with Shareholders

Kathmandu is committed to keeping Shareholders informed of all major developments affecting the Company's state of affairs relevant to Shareholders in accordance with all applicable laws. Information will be communicated to Shareholders through the lodgement of all relevant financial and other information with ASX and NZX and publishing information on the Company's website (www.kathmandu.co.nz or www.kathmandu.com.au).

In particular, the Company's website will contain information about the Company, including media releases, key policies and the terms of reference of the Company's Board Committees. All relevant announcements made to the market and any other relevant information will be posted on the Company's website as soon as they have been released to ASX and NZX.

6.3.8 Employee incentives

Kathmandu has introduced an Employee Option Plan pursuant to which employees may be granted options over Shares in Kathmandu. Details of the terms and conditions of this plan are set out in Section 10.4.

6.3.9 Deeds of access, indemnity and insurance

Each Director, the Chief Executive Officer and the Finance Director has entered into a deed of indemnity, insurance and access with Kathmandu. See Section 10.8 for further information.

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7. FINANCIAL INFORMATION

7.

FINANCIAL INFORMATION

7.1 INTRODUCTION

This Section contains a summary of the following historical and forecast financial information of Kathmandu (together, the 'Financial Information').

The Historical Financial Information comprises the:

- pro forma consolidated income statements of Kathmandu for FY2007, FY2008 and FY2009, together with a reconciliation of the audited consolidated EBIT (see Sections 7.3 and 7.13.1);
- consolidated historical statement of financial position of Milford and the pro forma consolidated statement of financial position of Kathmandu as at 31 July 2009 (see section 7.5); and
- pro forma consolidated cash flow statement of Kathmandu for FY2007, FY2008 and FY2009 (see Section 7.6).

The Forecast Financial Information comprises the:

- pro forma consolidated forecast income statement of Kathmandu for FY2010 (see Section 7.3), together with a reconciliation of the statutory consolidated forecast NPAT of Kathmandu for FY2010 (see Sections 7.3 and 7.13.2); and
- pro forma consolidated cash flow statements of Kathmandu for FY2010 (see Section 7.6).

Also summarised in this Section are:

- the basis of preparation of the Financial Information (see Section 7.2);
- the Directors' best estimate assumptions underlying the Forecast Financial Information (see Section 7.11); and
- significant accounting policies relevant to the Financial Information (see Section 7.17).

The Financial Information has been reviewed by PricewaterhouseCoopers Securities Ltd, whose Investigating Accountant's report is contained in Section 8.

The information in this Section should also be read in conjunction with the risk factors set out in Section 9 and other information contained in this Prospectus.

7.2 BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL INFORMATION

Kathmandu will use the proceeds from the issue of the Shares to the public under the Offer to:

- satisfy the cash consideration payable for the acquisition by Kathmandu of the Milford Shares from the Milford Shareholders;
- fund in part the repayment of existing debt in Milford (comprising a senior debt agreement and working capital facility of Milford and its subsidiaries); and
- pay the fees and expenses of the Offer.

The substance of the transactions contemplated under the Offer have been evaluated with reference to NZ IFRS 3 (and the equivalent AASB3R (Australian Accounting Standards AASB3 (Revised)) and it has been determined that the transaction does not represent a business combination as outlined in those standards. The appropriate accounting treatment for recognising the new group structure is on the basis that the transaction is a form of capital reconstruction and group re-organisation, and as a consequence the Financial Information included in this Prospectus has been prepared on the basis of a reverse acquisition by Milford (of the proposed listed parent, Kathmandu).

The principal accounting policies adopted in the preparation of the Financial Information are set out in Section 7.17. These policies are in compliance with the recognition and measurement principles of NZ IFRS and Australian Accounting Standards. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards.

7.2.1 Preparation of Australian dollar denominated financials

Kathmandu has historically presented its audited financial statements in New Zealand dollars. This policy will continue following completion of the Offer and unless otherwise indicated, the Financial Information included in this Prospectus is presented in New Zealand dollars. For illustrative purposes only, selected financial information denominated in Australian dollars has also been included in this Prospectus.

Where A$ Financial Information is presented, this has been calculated by conversion of the equivalent NZ$ Financial Information at the applicable financial year average exchange rate, or the year-end rate in the case of the pro forma consolidated statement of financial position. This A$ Financial Information is presented without adjusting for corrections or amendments that may be required if the Financial Information were presented for an A$ reporting group.

The Financial Information is presented in an abbreviated form and does not contain all of the disclosure provided in an annual report prepared in accordance with the Financial Reporting Act 1993 (NZ) or the Corporations Act.

7.2.2 Preparation of Historical Financial Information

In preparing the Historical Financial Information, adjustments were made to the audited results of Milford that the Company considered appropriate to reflect the Company's current operations and to eliminate certain non-recurring items, which are set out in Section 7.13. An estimate of the incremental costs associated with being a public company has been included in each of the historical years.

The historical income statements have also been amended to eliminate interest and tax given the different corporate and funding structures following the Offer.

7.2.3 Preparation of Forecast Financial Information

The Directors believe they have prepared the Forecast Financial Information with due care and attention, and consider all best estimate assumptions when taken as a whole to be reasonable at the time of preparing this Prospectus.

The Forecast Financial Information has been prepared on the basis of numerous assumptions, including the key best estimate assumptions set out in Section 7.11. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a materially positive or negative effect on Kathmandu's actual financial performance or financial position. Investors are advised to review the key best estimate assumptions set out in Section 7.11, in conjunction with the sensitivity analysis set out in Section 7.12, the risk factors set out in Section 9 and other information set out in this Prospectus.

7.3 SUMMARY OF PRO FORMA CONSOLIDATED HISTORICAL AND FORECAST INCOME STATEMENTS

Set out below is a summary of Kathmandu's unaudited pro forma consolidated historical income statements for FY2007, FY2008 and FY2009 and the pro forma consolidated forecast income statement for FY2010. The historical income statements have been presented before interest and income tax due to the different corporate and funding structure that will be in place after the Offer.

NZ$ summary financial information

	Pro forma historical			Pro forma forecast
Year to 31 July (NZ$000's)	FY2007	FY2008	FY2009	FY2010
Sales	151,413	192,800	215,580	240,042
Gross profit	92,790	115,746	138,759	153,711
Rent[1]	(11,669)	(17,166)	(23,080)	(25,111)
Other operating costs	(45,932)	(61,411)	(66,057)	(71,494)
EBITDA	35,189	37,169	49,622	57,106
Depreciation and amortisation	(2,116)	(4,303)	(5,570)	(6,523)
EBIT	33,074	32,865	44,052	50,583
Financing costs[2]				(5,815)
Profit before tax				44,768
Tax				(13,897)
NPAT				30,871
Maintenance capex	2,718	3,568	2,624	6,965
Growth capex	5,170	8,126	5,326	5,593
Number of stores (year end)	58	75	82	94

	Summary reconciliation to statutory accounts			
Year to 31 July (NZ$000's)	FY2007	FY2008	FY2009	FY2010
Pro forma historical/forecast EBIT	33,074	32,865	44,052	50,583
Net adjustments[3, 4]	5,415	919	(944)	(9,824)
Statutory historical/forecast EBIT	38,488	33,784	43,108	40,759

Notes:

1. Rent of stores includes rates, council taxes and associated service costs charged by landlords.
2. Financing costs include interest ($4.4 million) and facility fees (which are amortised across the life of the facility). Refer to financing costs in Section 7.11.1.
3. The pro forma consolidated historical income statements for FY2007, FY2008 and FY2009 are reconciled to the audited consolidated income statements for those years in Section 7.13.1.
4. The pro forma consolidated forecast income statement for FY2010 is reconciled to the statutory consolidated forecast income statement for FY2010 in Section 7.13.2.
5. The foreign exchange rates used by the company to prepare the Financial Information have been: A$ converted to NZ$ based on an NZ$/A$ exchange rate of 0.88 in FY2007, 0.83 in FY2008 and 0.814 in FY2009 with a forecast exchange rate of 0.82 in FY2010. UK£ converted to NZ$ based on a NZ$/UK£ exchange rate of 0.355 in FY2007, 0.40 in FY2008 and 0.38 in FY2009, with a forecast exchange rate of 0.395 in FY2010.

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FINANCIAL INFORMATION

The NZ$ summary financial information above has been translated at the prescribed NZ$/A$ rates to arrive at the A$ information below.

A$ summary financial information

	Pro forma historical			Pro forma forecast
Year to 31 July (A$000's)	FY2007	FY2008	FY2009	FY2010
Sales	133,244	160,024	175,482	196,835
Gross profit	81,655	96,069	112,950	126,043
Rent	(10,268)	(14,248)	(18,787)	(20,591)
Other operating costs	(40,420)	(50,971)	(53,771)	(58,625)
EBITDA	30,967	30,850	40,392	46,827
Depreciation and amortisation	(1,862)	(3,572)	(4,534)	(5,349)
EBIT	29,105	27,278	35,858	41,478
Financing costs				(4,768)
Profit before tax				36,710
Tax				(11,396)
NPAT				25,314
Maintenance capex	2,392	2,962	2,136	5,712
Growth capex	4,550	6,744	4,335	4,586
Number of stores (year end)	58	75	82	94
NZ$/A$ conversion rate	0.880	0.830	0.814	0.820

7.4 KEY OPERATING METRICS

Set out below is a summary of Kathmandu's key historical operating metrics for FY2007, FY2008 and FY2009 and the key forecast operating metrics for the FY2010 pro forma forecast.

	Pro forma historical[1]			Pro forma forecast[2]
Year to 31 July	FY2007	FY2008	FY2009	FY2010
Number of stores (year end)	58	75	82	94
Sales growth		27.3%	11.8%	11.3%
Gross profit margin	61.3%	60.0%	64.4%	64.0%
EBITDA growth		5.6%	33.5%	15.1%
EBITDA margin	23.2%	19.3%	23.0%	23.8%
EBIT growth		(0.6)%	34.0%	14.8%
EBIT margin	21.8%	17.0%	20.4%	21.1%

Notes:

1. The pro forma consolidated historical income statements for FY2007, FY2008 and FY2009 are reconciled to the audited consolidated income statements for those years in Section 7.13.1.
2. The pro forma consolidated forecast income statement for FY2010 is reconciled to the statutory consolidated forecast income statement for FY2010 in Section 7.13.2.

7.5 PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The pro forma consolidated statement of financial position shown below has been extracted from the audited statutory financial statements of Milford for FY2009 and adjusted to reflect the following assumptions:

- that total proceeds from the Offer, other than NZ$100.7 million, will be used by the Company to satisfy the cash consideration payable for the acquisition by the Company of the Milford Shares from the Milford Shareholders. The balance of the consideration payable to the Milford Shareholders will be satisfied by the issue of new Shares in Kathmandu (at the Final Price NZ$ per Share);
- the NZ$100.7 million retained by the Company from the Offer proceeds will be accounted for as an increase in contributed equity capital. These funds will be used to:
  - repay NZ$85.7 million of the existing financing facilities; and
  - pay fees and expenses of the Offer, estimated at NZ$15.0 million for these purposes;
- a further drawdown of NZ$70.0 million will be made under the New Financing Facilities in order to retire the existing financing facilities;
- on the basis that approximately 30% of the proceeds of the Offer are being retained by the Company, NZ$4.7 million of the Offer fees and expenses has been accounted for as a reduction in contributed equity. The residual NZ$10.3 million of Offer fees and expenses has been adjusted against retained profits on the basis that this is a non-recurring expense. It is expected that certain of the Offer fees and expenses will be tax deductible to the Company. No allowance has been made for this as the amount cannot be reliably estimated at the date of this Prospectus;
- a one-off cash payment of NZ$2.2 million to Management in relation to the cancellation of a share incentive plan. The liability for this payment was recorded in the 31 July 2009 accounts; and
- a NZ$2.3 million repayment of employee related loans that will be received by the Company at the time of the Offer.

7.

FINANCIAL INFORMATION

As at 31 July 2009 (NZ$000's)	Audited	Impact of the Offer and the New Financing Facilities	Pro forma	Pro forma[1] A$000's
Current assets				
Cash and cash equivalents	32,209	(32,209)	0	0
Trade and other receivables	2,629	0	2,629	2,077
Inventories	39,613	0	39,613	31,294
Derivative financial instruments	1,524	0	1,524	1,204
Other	2,286	(2,286)	0	0
Total current assets	**78,261**	**(34,496)**	**43,765**	**34,575**
Non-current assets				
Derivative financial instruments	828	0	828	654
Property, plant and equipment	21,326	0	21,326	16,848
Deferred tax assets	5,114	0	5,114	4,040
Intangible assets[2]	243,855	0	243,855	192,645
Total non-current assets	**271,123**	**0**	**271,123**	**214,187**
Total assets	**349,384**	**(34,496)**	**314,888**	**248,762**
Current liabilities				
Trade and other payables	17,879	(2,163)	15,716	12,416
Current tax liabilities	6,009	0	6,009	4,747
Borrowings	5,917	(5,917)	0	0
Derivative financial instruments	4,636	0	4,636	3,662
Total current liabilities	**34,441**	**(8,080)**	**26,361**	**20,825**
Non-current liabilities				
Borrowings	182,039	(112,039)	70,000	55,300
Derivative financial instruments	218	0	218	172
Total non-current liabilities	**182,257**	**(112,039)**	**70,218**	**55,472**
Total liabilities	**216,698**	**(120,119)**	**96,579**	**76,297**
Net assets	**132,686**	**85,623**	**218,309**	**172,464**
Equity				
Contributed equity	96,146	95,914	192,060	151,727
Reserves	2,575	0	2,575	2,034
Retained profits	33,965	(10,290)	23,675	18,703
Total equity	**132,686**	**85,623**	**218,309**	**172,464**

Notes:

1. Reflecting an NZ$/A$ conversion rate of 0.790.
2. Comprises goodwill of NZ$75.4 million, and NZ$167.5 million valuation of the rights to use the Kathmandu brand, both of which arose on the purchase of Milford by the Milford Shareholders in May 2006, and NZ$1.0 million of capitalised software.
3. As described in Section 7.2, the substance of the transactions contemplated under the Offer result in Milford being deemed the acquirer of Kathmandu for accounting purposes. Accordingly, these transactions will not result in the recognition of any fair value adjustments or goodwill on consolidation.

7.6 PRO FORMA CONSOLIDATED HISTORICAL AND FORECAST CASH FLOW STATEMENTS

Set out in the table below is a summary of Kathmandu's pro forma historical cash flow for FY2007, FY2008 and FY2009 and the pro forma forecast cash flow for FY2010. The summary of historical cash flows has been amended to eliminate investing and financing activities given the different corporate and funding structure following the Offer.

	Pro forma historical[1]			Pro forma forecast[2]
Year to 31 July (NZ$000's)	FY2007	FY2008	FY2009	FY2010
EBITDA	35,189	37,169	49,622	57,106
Change in working capital	10,255	(13,515)	2,191	1,937
Change in other non-cash items[3]	(2,444)	5,981	(5,148)	(3,070)
Capital expenditure[4]	(7,932)	(11,571)	(8,132)	(12,558)
Operating cash flow after capital expenditure[5]	**35,069**	**18,064**	**38,533**	**43,415**
Net interest paid (including facility fees)				(7,403)
Income taxes paid[6]				(9,900)
Net operating cash flow				**26,112**
Dividends paid[7]				0
Cash flow available to repay borrowings and/or pay dividends				**26,112**

Notes:

1. The pro forma historical income statements for FY2007, FY2008 and FY2009 are reconciled to the audited consolidated income statements for those years in Section 7.13.1.
2. The pro forma consolidated forecast income statement for FY2010 is reconciled to the statutory consolidated forecast income statement for FY2010 in Section 7.13.2.
3. EBITDA excludes tax and interest; however, the working capital movement includes movement in the interest accrual and in current tax. These are adjusted in the non-cash items line which also includes items such as gains/losses from unrealised foreign exchange fluctuations, property plant and equipment sales and the unamortised portion of derivative settlements in relation to purchase of inventories.
4. The capital expenditure amounts differ to that shown in the table in Section 7.3 due to capital expenditure accruals.
5. Refer to Sections 7.10.4 and 7.11.1 for explanation of variability.
6. Income taxes paid excludes NZ$2.0 million of taxes payable by the Company in FY2010 in relation to the amendment of a prior year tax return.
7. The dividend payment in respect of FY2010 is expected to be paid in November 2010. Refer to dividend policy in Section 7.14.

The NZ$ cash flow statements have been translated at the prescribed NZ$/A$ rate to arrive at the A$ cash flow statement below.

	Pro forma historical			Pro forma forecast
Year to 31 July (A$000's)	FY2007	FY2008	FY2009	FY2010
EBITDA	30,967	30,850	40,392	46,827
Change in working capital	9,024	(11,217)	1,783	1,589
Change in other non-cash items	(2,150)	4,964	(4,190)	(2,518)
Capital expenditure	(6,980)	(9,604)	(6,619)	(10,298)
Operating cash flow after capital expenditure	**30,861**	**14,993**	**31,366**	**35,601**
Net interest paid (including facility fees)				(6,071)
Income taxes paid				(8,118)
Net operating cash flow				**21,412**
Dividends paid				0
Cash flow available to repay borrowings and/or pay dividends				**21,412**
NZ$/A$ conversion rate	*0.880*	*0.830*	*0.814*	*0.820*

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7.7 SEGMENT INFORMATION

Kathmandu's primary segment reporting format is geographical segments as the Company's risks and rates of return are predominantly affected by having operations in different countries.

Geographical segments

New Zealand

This segment consists of the operations of the home country of the Company and one of the main operating entities. The Company operated 31 stores in New Zealand as at 31 July 2009.

Australia

This segment consists of the operations in Australia and one of the main operating entities. The Company operated 45 stores in Australia as at 31 July 2009.

United Kingdom ("UK")

This segment consists of the operations in the UK, a market which the Company entered in 2003. The Company operated six stores in the UK as at 31 July 2009.

	Pro forma historical			Pro forma forecast
Year to 31 July (NZ$000's)	FY2007	FY2008	FY2009	FY2010
Sales				
New Zealand	70,545	79,806	85,132	93,661
Australia	75,478	107,528	120,954	134,805
UK	5,391	5,466	9,494	11,576
Total sales	**151,413**	**192,800**	**215,580**	**240,042**
EBIT				
New Zealand[1]	19,789	18,402	26,930	29,039
Australia[1]	15,761	17,197	20,867	24,727
UK	(1,239)	(1,662)	(2,380)	(1,556)
Holding companies	(1,236)	(1,072)	(1,365)	(1,627)
Total EBIT	**33,074**	**32,865**	**44,052**	**50,583**

Notes:

1. Segment EBIT for New Zealand and Australia is net of intercompany recharges comprising management services and royalty charges (2% of sales in Australia), which increases New Zealand EBIT and decreases Australia EBIT. This total intercompany recharge was NZ$4.7 million in FY2007, NZ$5.7 million in FY2008, NZ$6.7 million in FY2009 and is forecast to be NZ$6.4 million in FY2010. The royalty portion of this recharge was NZ$1.7 million in FY2007, NZ$2.1 million in FY2008, NZ$2.4 million in FY2009 and is forecast to be NZ$2.7 million in FY2010.

7.8 SEASONALITY

The majority of Kathmandu's annual sales is derived from tri-annual major sales promotions in each year, occurring in a portion of the months of December and January (Christmas), March and April (Easter) and June and July (Winter). Two of these sales occur in the second half of the financial year, and the Winter Sale is the largest of these three promotions.

As a consequence, a greater proportion of Kathmandu's sales and EBITDA are derived in the second half of each financial year, with the proportion in any given year dependent on the relative success of each of these promotions. The table below demonstrates the impact of this seasonality on the consolidated historical and FY2010 forecast sales and EBITDA of Kathmandu.

	Pro forma historical						Pro forma forecast	
Year ended 31 July	1H as a % of FY2007	2H as a % of FY2007	1H as a % of FY2008	2H as a % of FY2008	1H as a % of FY2009	2H as a % of FY2009	1H as a % of FY2010	2H as a % of FY2010
Sales	38.7%	61.3%	37.5%	62.5%	39.4%	60.6%	40.4%	59.6%
EBITDA	33.6%	66.4%	20.7%	79.3%	20.6%	79.4%	26.4%	73.6%

The relative decline in the EBITDA contribution from the first half of FY2007 compared to subsequent years arises from the growth in total operating costs as store numbers have increased that are fixed in nature, such as rents, impacting proportionately more upon first half year EBITDA.

The forecast improvement in the EBITDA contribution between the first half of FY2009 and the first half of FY2010 is due to an expected larger relative uplift in sales and gross profit margin performance in the first half year FY2010 rather than the second half year when compared to FY2009.

7.9 WORKING CAPITAL

Month by month working capital requirements vary considerably across the financial year, primarily due to the build-up in inventories required prior to each of the tri-annual major sale events. For FY2009, the variation between the lowest and highest dollar value of month-end inventory was approximately NZ$20 million (50%), compared to a total increase of approximately NZ$4 million (11%) in inventories over the year. The month-end average inventories over that period was approximately NZ$48 million. The peak month-end inventories level was approximately NZ$59 million in May 2009, prior to the Winter Sale promotion that commenced in the following month. A similar working capital profile is expected for FY2010.

Other working capital items (excluding cash) such as trade and other payables or receivables vary by smaller amounts, and the monthly average of these items was less than NZ$12 million over FY2009.

7.10 MANAGEMENT DISCUSSION AND ANALYSIS OF HISTORICAL RESULTS

7.10.1 General factors affecting the operating results of the Company

Below is a brief discussion of the main factors which affected the Company's operating financial performance in FY2007, FY2008 and FY2009. The general factors described below are a summary only and do not represent everything that affected the Company's historical and financial performance.

Organisational structure

In the three and a half year period under the current ownership, there has been substantial investment in core organisational structure to support ongoing growth. In all three countries of operation, new or redeveloped leased head office and distribution facilities have been established with sufficient capacity to support future store growth. The executive management team has been enlarged with new personnel and roles introduced to facilitate the Company's growth strategy in respect to store rollout, product development and logistics. Key systems improvements, such as new point-of-sales and electronic time and attendance/rostering systems will provide IT infrastructure for ongoing growth. Total capital expenditure for these initiatives represented approximately NZ$3.5 million over FY2007 to FY2009.

Store rollout

Kathmandu has grown from 46 stores in 2006 to 82 as at the end of FY2009. New store openings have been a key driver of sales and earnings growth. Having determined the appropriate store formats and rollout opportunities, the rate of new store openings has also taken into account the economic environment, business capacity, availability of suitable locations, and optimal use of capital.

Kathmandu's vertical business model has assisted individual stores to quickly make positive contributions. The speed of new store rollout and targeting infill of stores in existing areas (particularly in New Zealand) has caused some reduction in existing store sales.

	FY2007	FY2008	FY2009
Beginning number of stores	46	58	75
Stores opened	12	17	8
Stores closed	0	0	1
Ending number of stores	58	75	82

Capital expenditure relating to the above has been NZ$18.6 million, with an additional NZ$3.1 million of refurbishment spent in FY2007 to FY2009.

Foreign exchange

Between 80% and 90% of Kathmandu's products are paid for in US$. The Company has consistently hedged approximately 90% of its annual US$ exposure at least 12 months forward to provide reasonable certainty regarding the exchange rate component of product cost given the Company's product development lead times.

The Company has sales and costs in three currencies, New Zealand dollars, Australian dollars, and UK pounds, and debt in both New Zealand and Australian dollars. The Company does not hedge its currency exposure to the Australian dollar and UK pound.

Product mix

The net sales that can be achieved in any year will be determined firstly by the full retail price that Kathmandu establishes for its products and secondly from the mix and level of promotional activity and discounts offered on each product across the year. It is the second factor that most greatly affects total sales revenue achieved in any year from the volume of products sold.

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Weather

Kathmandu makes a higher proportion of its sales in autumn and winter. This is because of the relative range of product offered that is appropriate for activity in colder weather. Variations in sales performance will likely occur when these seasons are warmer or colder than normal.

Like for like sales growth

Like for like sales are measured on a 52 week year, 13 week quarter trading basis rather than for each financial year ended 31 July. Kathmandu's Winter Sale promotion will generally end on either the last Sunday in July or first Sunday in August, and an accurate comparison of sales performance overall requires the full result of each Winter Sale promotion to be included. Like for like sales do not include clearance stores, temporary stores and mail order sales.

Like for like sales refers to stores that have been open for a full 52 weeks and excludes the sales of any store identified as having sales impacted by a new store opening from the time at which the new store was opened. For example, if a new store was opened in the 26th week of the 52 week financial year period, a store identified as being impacted by this new store would have its sales from the 26th – 52nd week in this period and the 1st – 25th week of the next financial year period excluded from the like for like comparison. Clearance stores, temporary stores and mail order sales are excluded from the like for like sales calculation.

This basis of measurement is applied because of the proportionately high number of new stores opened in cities with an existing Kathmandu retail presence such as Sydney and Auckland, over the period of the Historical Financial Information. Sydney store numbers increased from five to 12 from the start of FY2007 to the end of 2009. Auckland store numbers have increased from three stores operating for the full year in FY2006 (five stores by the start of FY2007) to nine open at the end of FY2009.

Gross profit

Kathmandu's gross profit margins have been 60% and above for FY2007 to FY2009, and the key driver in achieving and maintaining these margins has been (and is expected to be for FY2010) the selling price that is achieved for Kathmandu-branded product, rather than product costs. Kathmandu considers its margins are appropriate for a vertically integrated retailer selling branded product with technical attributes.

7.10.2 FY2008 compared to FY2007

	Pro forma		
Year ended 31 July (NZ$000's)	FY2007	FY2008	Change
Number of stores[1]	58	75	29.3%
Sales	151,413	192,800	27.3%
Gross profit	92,790	115,746	24.7%
Operating expenses	(57,601)	(78,577)	36.4%
Salaries and wages[2]	(24,373)	(33,000)	35.4%
Rent	(11,669)	(17,166)	47.1%
Other operating costs	(21,559)	(28,410)	31.8%
EBITDA	35,189	37,169	5.6%
EBITDA margin	23.2%	19.3%	(40)bps
EBIT	33,074	32,865	(0.6)%
EBIT margin	21.8%	17.0%	(48)bps
Operating cash flow	35,069	18,064	(48.5)%

Notes:
1. As at 31 July each year.
2. Includes superannuation and payroll taxes and other employee benefits.

Kathmandu increased store numbers by 29% (17 stores) in FY2008, the largest annual rate of increase in the FY2006 to FY2009 period. Eleven stores were opened in the first half of the financial year, and of the remaining six, four were opened in the final two months of the financial year.

Like for like sales increased by 8.8% in Australia, 0.3% in New Zealand and 14.2% in the UK, and overall by 5.1%.

There was a significant increase in the retail footprint of Kathmandu in the Australian market (total growth from 22 to 42 stores over FY2007 and FY2008). The ramp-up in second year sales for the new stores, combined with an increase in total advertising spend over the same period, contributed to the lift in like for like sales. The growth in like for like sales was less than the average in those Kathmandu stores established prior to FY2007 and located in suburban areas. These stores continued to contribute positively to overall profitability.

The opening of four new suburban stores in Auckland and Wellington in FY2007 and FY2008 years (increasing total store numbers in those two cities from seven to 11) had an adverse effect on the central city stores' sales in FY2008. However, these new stores resulted in an increase in total sales in Auckland and Wellington of 11.8% in FY2008 compared to FY2007.

Increased sales in FY2008 were offset slightly by a reduced gross profit margin from 61.3% in FY2007 to 60.0% in FY2008. Both Australia and New Zealand experienced similar reductions in gross profit margin.

The gross profit increase of NZ$23.0 million in FY2008 was largely offset by an increase in total operating expenses of NZ$21.0 million, resulting in an overall increase in EBITDA of NZ$2.0 million. As a percentage of sales, EBITDA decreased and this was primarily due to:

- an uplift in store rents, which was the primary reason for a 47% increase in total rent expense. This increase reflected the shift made to higher profile and incrementally more expensive store sites, particularly in Australian mall and high footfall locations. The shift was made in order to place Kathmandu stores in locations that have greater footfall and that will better represent the brand over the longer term;
- an increase in store salaries and wages (by NZ$6.0 million) and as a percentage of sales. There was an accelerated rollout of new stores in the last part of FY2007 and in total over the whole of FY2008 (23 stores were opened between 11 March 2007 and 4 July 2008). New stores generally require time for efficient store rosters to be developed, and all need staffing in place prior to opening for fitout and set-up;
- changes in the Company's operational structure to support the growing store network. Specific structural changes included an increase in staff within the retail operations teams, the implementation of a new supply chain management team, and growth in headcount in most corporate functions. Total employee salaries, wages and associated benefits and costs of employment increased by 35% from FY2007 to FY2008; and
- an increase in advertising spend in New Zealand and Australia of 39% to support the increase in store numbers, and more generally to increase the profile of the Kathmandu brand.

7.10.3 FY2009 compared to FY2008

Year ended 31 July (NZ$000's)	Pro forma FY2008	Pro forma FY2009	Change
Number of stores[1]	75	82	9.3%
Sales	192,800	215,580	11.8%
Gross profit	115,746	138,759	19.9%
Operating costs	(78,577)	(89,137)	13.4%
Salaries and wages[2]	(33,000)	(37,768)	14.4%
Rent	(17,166)	(23,080)	34.4%
Other operating costs	(28,410)	(28,289)	(0.4)%
EBITDA	37,169	49,622	33.5%
EBITDA margin	19.3%	23.0%	37bps
EBIT	32,865	44,052	34%
EBIT margin	17.0%	20.4%	34bps
Operating cash flow	18,064	38,533	113.3%

Notes:
1. As at 31 July each year.
2. Includes superannuation and payroll taxes and other employee benefits.

Kathmandu increased store numbers by 9% (eight stores opened, one closed) in FY2009. Only two stores were opened in the second half of FY2009, which coincided with the uncertainty caused by the global economic environment following the collapse of Lehman Brothers in September 2008.

Like for like sales increased by 1.9% in Australia, 0.1% in New Zealand and 13.9% in the UK, and overall by 1.6%.

Gross profit margin increased from 60.0% in FY2008 to 64.4% in FY2009. Margin improvement was achieved in both the New Zealand and Australian businesses in FY2009, particularly in the second half of the financial year. Retail pricing and associated discounts offered were more influential than costs in achieving FY2009 margins. However, there was a significant positive impact on gross profit from a reduction in the cost of freight and associated costs of importation as a percentage of cost of goods sold. Despite significant volatility in NZ$ and A$ to US$ spot rates during the year, there was no material impact to margins because of Kathmandu's hedging policy.

Gross profit margin in the UK reduced from 59.9% to 54.8% in response to the difficult economic conditions in that region, partly offsetting the benefit derived from the growth in like for like sales.

The gross profit increase of NZ$23.0 million in FY2009 was partly offset by an increase in operating expenses of NZ$10.6 million (13.4%), resulting in an increase in EBITDA of NZ$12.5 million.

The primary sources of increased expenses that were incremental to the Kathmandu cost base in FY2009 were:

- store rents, which increased by NZ$5.6 million and as a percentage of sales. Total rent increase was NZ$5.9 million;
- total employee salaries, wages and associated benefits and costs of employment increased by 14% from FY2008 to FY2009; and
- store salaries and wages increased by 9.8% but reduced as a percentage of sales. The proportionate reduction in store salaries and wages was enabled, to a significant degree, by the implementation of effective time and attendance and rostering software across Australia and New Zealand between September and November 2008.

Operating costs (excluding rent) reduced as a percentage of sales from 31.9% of sales in FY2008 to 30.6% of sales in FY2009. The other key drivers for this were:

- the cost of distribution (warehousing and shipment from warehouse to stores) increasing by less than 6%, despite sales (and the associated volume of stock) handled increasing by 12%. The ongoing development of supply chain efficiency and the proportion of fixed costs such as rent of warehouses were contributing factors to this relative saving; and

- a reduction in advertising spend as a percentage of sales and in total dollars for FY2009 compared to FY2008.

The EBITDA margin achieved (23.0%) was an improvement on FY2008 (19.3%), and similar to FY2007 (23.2%).

7.10.4 Pro forma consolidated historical cash flow statements

Year ended 31 July (NZ$000's)	Pro forma historical FY2007	FY2008	FY2009
EBITDA	35,189	37,169	49,622
Change in working capital	10,255	(13,515)	2,191
Change in other non-cash items	(2,444)	5,981	(5,148)
Capital expenditure	(7,932)	(11,571)	(8,132)
Operating cash flow after capital expenditure	35,069	18,064	38,533

At the end of FY2007, a successful Winter Sale reduced inventories substantially relative to FY2006 and created a large uplift in year-end payables. Over the course of FY2008, inventories grew by NZ$11 million driven by the 29% increase in store numbers. In FY2009, inventories increased at a much lower rate and this was offset by a general increase in payables and the Company's year-end tax liability.

Cash flows classified as non-cash items include changes in the valuation of derivative instruments, unrealised foreign exchange translations, and movements in deferred taxation. Capital expenditure generally reflects the proportionate increase in store numbers in each year.

7.10.5 FY2010 trading update

Sales and EBITDA results for August 2009, and sales for September and October to the date of this Prospectus have been ahead of expectations. However, as August and September comprise only 8% of FY2010 forecast sales and October is not complete, this is not a material variance in the context of the FY2010 forecast.

7.11 BEST ESTIMATE ASSUMPTIONS UNDERLYING THE FINANCIAL INFORMATION

The Forecast Financial Information is based on various best estimate assumptions, including those set out below. These assumptions should be read in conjunction with the sensitivity analysis set out in Section 7.12 and the risk factors set out in Section 9.

7.11.1 Specific assumptions

Set out below are specific best estimate assumptions that have been adopted in preparing the Forecast Financial Information for FY2010.

Sales

Sales are expected to increase by 11.3% or NZ$24.5 million over the forecast period. This growth is derived from existing sales growth (NZ$6.4 million), new store rollout ($11.8 million), and the full year benefit from stores opened in FY2009 (NZ$6.3 million).

Like for like sales for FY2010 are forecast to increase by 3.0% (0.1% in FY2009) in New Zealand, 3.6% (1.9% in FY2009) in Australia and 12.0% (13.9% in FY2009) in the UK. The forecast increase in overall like for like sales is 3.7% compared to 1.6% in FY2009. The key management assumptions underlying this forecast like for like sales growth are:

- an improvement in sustainable pricing in the market. Kathmandu considers market conditions in FY2010 will be slightly more advantageous to pricing than in FY2009, which was generally impacted by discounting across the retail sector;
- performance is expected to continue to be driven by the combination of the new stores opened in FY2007 and later, and the major central city stores across the Australian state capitals and three major New Zealand cities. These stores are expected to represent an increasing proportion of total like for like sales growth compared to the remaining stores opened prior to FY2007;
- improvement derived from the refurbishment of key existing stores. In FY2010, there is budgeted spend to refurbish 13 existing stores; and
- specific promotional and product initiatives associated with Kathmandu's annual sale and tactical events that are expected to further underpin like for like performance.

UK like for like sales growth is expected to improve through better product availability in the UK winter, and a significant forecast increase in advertising spend.

New store rollouts are forecast to generate NZ$11.8 million of sales from 12 new stores. The estimated sales contribution from these new stores considers the sales history from stores recently opened in similar geographic locations, expected timing to open, and the assessed impact on sales of existing stores. Three new stores have been opened as at the date of this Prospectus, three leases are at an advanced stage of lease completion and two further stores have Board approval as part of the 12 stores planned for FY2010.

Gross profit

The gross profit margin is forecast to decline slightly to 64.0% in FY2010 (64.4% in FY2009). This assumes a small improvement in gross profit margin in the first half of FY2010, and a small decrease in the second half of FY2010. Generally, Kathmandu expects the improvement in gross profit margin achieved through the second half of FY2009 to carry forward into the first half in FY2010. In the second half of FY2010, it is forecast that market competition in a potentially stronger economic environment will result in a small decline in gross profit margins. The variability of the sales mix within any sales promotion will cause a degree of gross profit margin variability.

As with FY2008 and FY2009, because of the hedging policy, exchange rate variability in total cost of inventories purchased is expected to be relatively small compared to whatever the actual movement in spot rates is across FY2010. Thus, variations in total cost of purchases for FY2010 will relate primarily to base US$ denominated cost prices for products purchased (as 80% to 90% of product purchased is paid for in US$), and costs incurred locally such as duty and freight. It is assumed that such variations will not materially affect total cost of goods sold in FY2010.

EBITDA

EBITDA is expected to grow by 15.1% in FY2010, with margin forecast to increase to 23.8% from 23.0% in FY2009. EBITDA growth is forecast to be generated through both the sales and gross profit dollar increases described above and through a decrease in total operating costs as a percentage of sales from 41.3% to 40.2% (increasing by NZ$7.5 million in FY2010). The major changes in forecast operating costs are:

- store rents, which increase by 9.4% (NZ$2.0 million) but decrease as a percentage of sales due to improved new store and store relocation incentive contributions;
- total employee salaries, wages and associated benefits and costs of employment are forecast to increase by NZ$2.3 million (6%) from FY2009 to FY2010. This reflects reduced bonus incentives forecast for FY2010. Store salaries and wages are forecast to increase by 11.6% and remain unchanged as a percentage of sales; and
- advertising spend in FY2010 forecast to increase by approximately 10% over FY2009.

Depreciation and amortisation

The FY2010 depreciation expense is based on existing rates of depreciation, adjusted for planned capital expenditure and disposals.

Depreciation rates are based on the estimation of useful lives which are not expected to change in the forecast period. See Section 7.17.15 for a description of the Company's accounting policies relating to useful lives for property, plant and equipment.

Financing costs

The assumed financing costs reflect the banking arrangements outlined in Section 7.15. Pro forma net interest expense for FY2010 is forecast to be NZ$4.4 million (excluding facility establishment and line fees) based on 31 July 2009 pro forma net debt of NZ$70 million and FY2010 average pro forma net debt of NZ$75.6 million.

Interest expense reflects an approximate rate of 5.25% for New Zealand debt and approximately 5.85% for Australian debt and has been forecast based upon the two year BKBM (for New Zealand) and 90 day BBSW (for Australia) interest rate swap rates as at 28 September 2009 applied to monthly forecast gross debt; and at a rate of 2.5% per annum applied to monthly forecast cash balances.

Interest rate hedging policy will be implemented once the Group's new banking facilities, as outlined in Section 7.15, are in place.

Financing costs include facility fees and the gains or losses derived from the year-end translation of amounts owing between operating subsidiaries. Specifically, the FY2010 forecast includes a gain of NZ$0.8 million which arises from the translation of the amount due from the New Zealand operating subsidiary to the Australian operating subsidiary exchanged at 0.820 (the forecast rate) compared to 0.790 (FY2009 year-end rate). No gain or loss on the translation of the amount due to the New Zealand operating subsidiary from the UK operating subsidiary has been assumed, on the basis that the NZ$/UK£ rate at 31 July 2010 is forecast to be 0.395 consistent with the FY2009 year end rate.

Total facility establishment fees forecast to be paid in FY2010 but amortised over the three year term of the facility are NZ$1.3 million, and total facility line fees paid during FY2010 are forecast to be NZ$1.8 million.

Taxation

The forecast corporate tax rate for FY2010 is 30.0%, equal to the Australian and New Zealand corporate tax rate. The Company's actual effective tax rate is expected to be 31.0% for FY2010, primarily due to tax losses in the UK not accruing to other parts of the Group.

Cash flows, capital expenditure and working capital

Income tax payments in New Zealand are based on prior year tax calculations plus the budgeted increase in profits, and are made in January and May of the current financial year and in August of the following financial year, in equal proportions. Income tax instalments in Australia are paid on a quarterly basis on a percentage of sales stipulated by the Australian Taxation Office and are made quarterly in February, May, August and November. There is also a yearly balancing payment/(refund) in January which is equal to the difference between the income tax liability for the preceding income year less the income tax instalments for that year.

There is currently no tax budgeted to be paid in the UK due to the tax losses accrued.

Capital expenditure is forecast to be NZ$12.6 million for FY2010, allocated under the following major headings:

- existing store refurbishments: NZ$4.6 million, comprising relocation of two New Zealand stores (NZ$0.7 million), refurbishment of seven other existing New Zealand stores (NZ$0.7 million), and six Australian stores (NZ$1.8 million), and provisioning for general maintenance of all other stores including upgrade of racking (NZ$1.4 million);

- new store capital expenditure: NZ$5.6 million, comprising 12 new stores, five in New Zealand and seven in Australia. The cost of refurbishing existing stores and the fitout cost of new stores varies because of the different dimensions, locations and lease conditions of each store location;
- information systems: NZ$2.0 million, reflecting the Company's plan for an upgrade of its enterprise resource planning system during the year together with ongoing hardware and software replacements or upgrades; and
- other distribution and head office: NZ$0.4 million, covering warehousing and overhead department requirements.

The NZ$0.1 million movement in net working capital arises from a forecast reduction in average per store inventories in existing stores (total impact of NZ$4.4 million), primarily offset by growth in inventories arising from opening new stores.

7.11.2 Foreign currency exchange rate assumptions

Kathmandu is exposed to exchange rate movements and, in particular, movements in the A$/US$ rate and the NZ$/US$ rate. US dollar denominated purchases totalled approximately US$43.3 million for FY2009 and are forecast to be approximately US$45.3 million for FY2010.

To minimise the disruptive effects of a volatile and unpredictable exchange rate, forward exchange contracts are entered into for Kathmandu's purchases sourced overseas. Contracts are entered into once a commitment to purchase is made (based upon the Company's purchase budget for the financial year) and an estimated 90% of foreign purchases in US$ for the FY2010 year are hedged. This foreign exchange hedging practice is expected to be maintained over the forecast period.

The Forecast Financial Information assumes an FY2010 average A$/US$ rate of 0.80 and NZ$/US$ rate of 0.68 based on forward exchange rate contracts held by Kathmandu and prevailing market rates.

The NZ$ results of the Group will also be impacted by the average NZ$/A$ rate and NZ$/UK£ rates used to translate the results of the Australian and UK operations. These rates are assumed to be 0.82 and 0.395 respectively.

Translation of intercompany debt balances and other monetary assets at 31 July 2010 between NZ$/A$ and NZ$/UK£ also impacts the results of the Group. The rate assumed for translation of these balances as at 31July 2010 is also 0.82 and 0.395.

7.11.3 General assumptions

The following general assumptions are relevant to the Forecast Financial Information:

- no material change in the competitive operating environment;
- no significant deviation from current market expectations of global economic conditions relevant to the retail industry in Australia, New Zealand and the UK for the period;
- no unseasonal weather conditions;
- no material business acquisitions or disposals;
- no material industrial strikes or other disturbances, environmental costs or legal claims;
- retention of key personnel;
- no significant change in the legislative regimes (including tax) and regulatory environments in the jurisdictions in which Kathmandu or its key customers or suppliers operate;
- no change in the applicable New Zealand Accounting Standards and NZ IFRS or other mandatory New Zealand professional reporting requirements which would have a material effect on Kathmandu's financial performance, cash flows, financial position, accounting policies, financial reporting or disclosure;
- no change in Kathmandu's capital structure other than as set out in, or contemplated by, this Prospectus;
- no material adverse changes to Kathmandu's offshore product sourcing capabilities and costs, including exchange rates; and
- no material amendment to any material agreement or arrangement relating to Kathmandu's businesses.

7.12 SENSITIVITY ANALYSIS

The Forecast Financial Information is based on a number of estimates and assumptions that are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Kathmandu, its Directors and Management, and upon assumptions with respect to future business decisions, which are subject to change.

Set out below is a summary of the sensitivity of certain FY2010 Forecast Financial Information to changes in a number of key variables. The changes in the key variables as set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced. For the purposes of the analysis below, the effect of the changes in key assumptions on the FY2010 Forecast EBITDA of NZ$57.1 million or profit before tax of NZ$44.8 million is presented.

Assumption	Increase/ (decrease)	FY2010 impact (NZ$)
Change in sales (EBITDA impact)	1.0%/(1.0)%	$1.5 million/ $(1.5) million
Change in gross profit margin (EBITDA impact)	10bps/(10)bps	$0.2 million/ $(0.2) million
Change in salaries and wages expense (EBITDA impact)	1.0%/(1.0)%	$(0.4) million/ $0.4 million
Store opening delay (EBITDA impact)	3 months[1]	$(1.2) million
Exchange rate movement (profit before tax impact)		
(1) Translation of the results of the Australian operation	+ 1c /-1c	(0.3) million/ 0.3 million
(2) Translation of the NZ$ denominated intercompany payable to Australia	+1c /-1c	0.2 million/ (0.2) million
(3) Translation of the NZ$ denominated intercompany receivable from the UK	+0.5p/-0.5p	(0.2) million/ 0.2 million

Notes:

1. Store opening delay assumes seven stores scheduled for opening December 2009 and later are all delayed by three months. The FY2010 impact is the calculation of the resulting loss of EBITDA contribution from the currently forecast first three months of trading for each of these stores.

Care should be taken in interpreting these sensitivities. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables, to illustrate the likely impact on the forecast. In practice, changes in variables may offset each other or be additive, and it is likely that Kathmandu management would respond to any adverse change in one variable to minimise the net effect on Kathmandu's EBITDA.

The sensitivity calculation in respect of exchange rates above (which has no cash effect) illustrates: (1) the change that may arise from translation of foreign currency transactions undertaken in A$, being the FY2010 forecast profit before tax of the Australian operation translated at a varied rate to forecast. No sensitivity has been included in respect of the rate used for translation of the results of the UK operation as the impact of a change in this assumption is not significant, and (2) (3) the change in the translation of the loan account asset and liability balances as at 31 July 2009 that represent accumulated transactions between the New Zealand and either the Australian or UK operations.

A sensitivity analysis of other foreign exchange fluctuations is not included, as any impact on EBITDA, EBIT and profit before tax may be influenced by a number of interrelated factors, applicable to each of the countries that Kathmandu operates in. These include Kathmandu's hedging positions, the relative price elasticity of demand for the Company's products, the ability of the Company to effectively negotiate product costs, and the position of the Company's competitors in relation to all of the same factors.

While impacting cash flow and profit before tax rather than EBITDA, Kathmandu's sensitivity to interest rate movements is also an important consideration. As set out in Section 7.5, Kathmandu's total interest bearing liabilities included in the pro forma statement of financial position are NZ$70 million, and the financing costs have been calculated as specified in Section 7.11.1. Assuming NZ$77.2 million of interest bearing liabilities are outstanding on average during FY2010, if interest rates increase by 1.0% per annum, the interest expense will increase by NZ$0.8 million. The degree of sensitivity will depend on the eventual interest rate hedging policy implemented.

7.13 RECONCILIATION TO STATUTORY FINANCIAL STATEMENTS

7.13.1 Pro forma historical income statements

In presenting the pro forma historical income statements included in this Prospectus, adjustments to the audited historical income statements have been made to exclude the impact of certain one-off and normalisation adjustments. These adjustments are summarised below.

	Pro forma		
Year ended 31 July (NZ$000's)	FY2007	FY2008	FY2009
Pro forma EBIT	33,074	32,865	44,052
Adjustments:			
Incremental listing costs[1]	919	919	919
Executive share scheme payout[2]	0	0	(1,863)
13 month adjustment[3]	4,496	0	0
Audited EBIT[4]	38,488	33,784	43,108

Notes:

1. Represents estimated incremental costs associated with being a public company.
2. Management received a one-off payment of NZ$2.2 million in FY2009, and their existing share ownership incentive arrangements were cancelled. The annual cost of a new share option scheme (as described in Section 10.4) has been estimated at NZ$0.3 million per annum. Accordingly a net NZ$1.9 million adjustment has been made to the reported FY2009 results.
3. The audited financial statements for FY2007 were prepared for the 13 month period ended 31 July 2007. For the purposes of preparing the pro forma financial information, an adjustment to remove the impact of the July 2006 result has been made.
4. Excludes gain or loss on sales of property, plant and equipment.
5. The above adjustments have also been reflected in the pro forma historical cash flow statement.

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7.13.2 Pro forma forecast income statement

The table below reconciles the pro forma FY2010 forecast to the FY2010 result the Company expects to report in its FY2010 statutory income statement:

Year ending 31 July (NZ$000's)	FY2010
Pro forma NPAT	30,871
Adjustments:	
Incremental listing costs adjustment for part year[1]	466
Share of Offer fees and expenses expensed by the Company[2]	(10,290)
Financing costs adjustment (including facility fees)[3]	(2,805)
Tax impact of above adjustments	702
Statutory NPAT	18,944

Notes:

1. Reflects the part year payment of the incremental costs of being a public company.
2. As described in Section 7.5, a proportion of the Offer fees and expenses will be accounted for as a non-recurring expense in the FY2010 statutory income statement. The payment of these costs by the Company has been reflected in arriving at the pro forma net debt at 31 July 2009.
3. For statutory reporting purposes in FY2010, financing costs will reflect the part year costs of the existing banking arrangements (and higher debt levels) and the new banking arrangements outlined in Section 7.15.

7.14 DIVIDEND POLICY

Subject to the forecast being achieved and other relevant factors, the Board intends to declare a 6.7 New Zealand cents per Share final dividend in respect of FY2010, with this first dividend payable in November 2010. It is expected that this dividend will be fully franked for Australian tax purposes and fully imputed for New Zealand tax purposes. Movements in exchange rates between the time when Kathmandu decides to pay the dividend and when the dividend is paid may impact the level of franking in Australian dollar terms.

Beyond the forecast period, the Directors' dividend policy is to distribute between 50% and 60% of NPAT, and to frank and impute dividends to the greatest extent possible.

In respect of future years, subject to available profits and the financial position of the Company, an interim dividend is expected to be payable annually in May, with a final dividend payable annually in November. No guarantee can be given about future dividends, or the level of franking or imputation of such dividends, as these matters will depend upon the future profits of the Company and its financial and taxation position at the time. The current Australian franking account balance will not provide Kathmandu shareholders with a franking tax offset (as the balance will be quarantined). In addition, the balance of the New Zealand imputation credit account will be forfeited on the change of shareholding resulting from the Offer.

The intended dividend for FY2010 corresponds to a forecast yield of 3.1% for part of the year based on the midpoint of the Indicative Price Range.[1]

As at the date of this Prospectus, the Company has a consolidated Australian franking account balance of nil. The Company will have no imputation credits on completion of the Offer.

7.15 DESCRIPTION OF THE NEW FINANCING FACILITIES

7.15.1 Introduction

Kathmandu has entered into a facility agreement with a syndicate of lenders, comprising ANZ National Bank Limited, Bank of New Zealand, Commonwealth Bank of Australia, Australia and New Zealand Banking Group Limited and National Australia Bank Limited pursuant to which the syndicate will make available NZ$125 million of facilities in four tranches comprising:

- revolving cash advance facility of NZ$40 million;
- revolving cash advance facility in the Australian dollar equivalent of NZ$40 million based on the ANZ National Bank Limited's spot rate of exchange on Friday, 16 October 2009;
- working capital facility of NZ$22.5 million; and
- working capital facility in the Australian dollar equivalent of NZ$22.5 million based on the ANZ National Bank Limited's spot rate of exchange on Friday, 16 October 2009.

The facilities provided under the new agreement will expire three years after the date of listing of the Company pursuant to the Offer. The agreement is conditional only on listing, payment of fees on the new facilities, repayment of existing borrowings of the Group (and the consequential discharge of associated security) and confirmation of completion of financial assistance procedures. All of the above matters have been documented so as, other than listing, to be completely within the control of Kathmandu.

7.15.2 Use of proceeds

Amounts drawn under the New Financing Facilities will be used for the following purposes:

- repayment of the existing borrowings of the Group; and
- working capital requirements and general corporate purposes of the Group.

A portion (minimum of NZ$10 million throughout the year) of the working capital facilities will be used to provide letters of credit and guarantees to suppliers.

7.15.3 Representations and warranties

The agreement under which the New Financing Facilities are made available contains representations and warranties usual for facilities of this nature.

1. Note that FY2010 dividends are payable with respect to earnings generated in the second half of FY2010 only. The dividend neither in dollar nor yield terms has been annualised.

7.15.4 Undertakings

The agreement under which the New Financing Facilities are made available contains undertakings usual for facilities of this nature including undertakings to provide information (including quarterly financial reports), a negative pledge (incorporating customary carve-outs) and restrictions as to disposals of assets and the provision of financial accommodation (in each case, subject to exceptions usual for facilities of this nature).

These undertakings also include:

- the ratio of the Group's net debt to last 12 months EBITDA is not greater than 2.5x.
  - Based on pro forma FY2009 EBITDA and borrowings, this ratio would have been 1.4x; and
- the ratio of the Group's EBITDA plus rental expense to net interest expense plus rent expense is not less than 1.5x.
  - Based on pro forma FY2009 EBITDA and rental and net interest expense, this ratio would have been 2.3x.

These undertakings will be tested on a quarterly basis.

The obligations of Kathmandu Limited and Kathmandu Pty Limited (subsidiaries of Kathmandu) as borrowers under the agreement are guaranteed and secured by Kathmandu and such of its subsidiaries that encompass at least 90% of the total tangible assets of the Group and 90% of the EBITDA of the Group.

7.15.5 Events of default and review

The agreement under which the New Financing Facilities are made available contains events of default which are usual for facilities of this nature, including failure to pay, breach of financial undertaking, breach of general undertaking, misrepresentation, cross-default, insolvency and related events, unenforceability, de-listing or suspension in trading, and material adverse effect. It is an event of review under the agreement if there is a change of control of Kathmandu.

7.16 LEASE COMMITMENTS

Kathmandu does not have any finance leases. The majority of Kathmandu's lease commitments relate to operating commitments for its retail stores.

Kathmandu's operating lease commitments are presented in the table below:

(NZ$000's)	Pro forma as at 31 July 2009
Within one year	20,594
Later than one year but not later than five years	64,543
Later than five years	23,313
Total	**108,450**

7.17 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

7.17.1 Basis of preparation

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

Entities reporting

The consolidated financial statements for the Group are for the economic entity comprising Kathmandu and its subsidiaries. On completion of the Offer, the Group consists of:

Kathmandu Holdings Limited (NZ)	Holding company
Milford Group Holdings Limited (NZ)	100% owned by Kathmandu Holdings Limited (NZ)
Milford Equities Limited (NZ)	100% owned by Milford Group Holdings Limited (NZ)
Kathmandu Investments Limited	100% owned by Milford Group Holdings Limited (NZ)
Kathmandu Group Limited (NZ)	100% owned by Milford Equities Limited (NZ)
Kathmandu Limited (NZ operating company)	100% owned by Kathmandu Group Limited (NZ)
Kathmandu Pty Ltd (Australian operating company)	100% owned by Kathmandu Group Limited (NZ)
Kathmandu (UK) Limited (UK operating company)	100% owned by Kathmandu Group Limited (NZ)

Historical cost convention

The Financial Information in this Prospectus has been prepared under the historical cost convention, modified by the revaluation of certain assets as identified in specific accounting policies below.

7.17.2 Principles of consolidation

Subsidiaries

The consolidated financial information incorporates the assets and liabilities of all subsidiaries of Kathmandu at year end and the results of all subsidiaries for the year then ended. Kathmandu and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity. Investments in subsidiaries are accounted for at cost in the parent financial statements less impairments.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

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Subsidiaries, which form part of the Group, are consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of businesses by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

7.17.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

7.17.4 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Group companies

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement;
- income and expenses for each statement of financial performance are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

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

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

7.17.5 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, excluding goods and services tax ("GST"), rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows.

Sale of goods

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

Sale of services

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

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Dividend income

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

7.17.6 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

7.17.7 Goods and services tax

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

7.17.8 Leases

The Group as lessee

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

The Group as lessor

Assets leased to third parties under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

7.17.9 Impairment of non-financial assets

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

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

7.17.10 Cash and cash equivalents

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

7.17.11 Inventories

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

7.17.12 Investments and other financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at the initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables

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

Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available for sale financial assets are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised in equity, except for foreign exchange movements on monetary assets, which are recognised in the income statement. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset of a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

7.17.13 Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as either: (a) hedges of the fair value of recognised assets or liabilities or a firm commitment (“fair value hedges”); or (b) hedges of highly probable forecast transactions (“cash flow hedges”). The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedges

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

Cash flow hedges

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

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

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting or hedge accounting has not been adopted for them. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

7.17.14 Fair value estimation

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

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

7.17.15 Property, plant and equipment

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

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

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

- Leasehold improvements 10 – 25%;
- Office, plant and equipment 10 – 48%;
- Furniture and fittings 10 – 48%;
- Computer equipment 20 – 60%; and
- Motor vehicles 15 – 30%.

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

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

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

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

7.17.16 Intangible assets

Goodwill

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

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

Brands

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

Software costs

Software costs have a finite useful life. Software costs are capitalised and written off over the useful economic life of four years.

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

7.17.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid by the 30th of the month following recognition.

7.17.18 Provisions

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

7.17.19 Borrowings

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

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

7.17.20 Share capital

Ordinary shares are classified as equity.

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

7.17.21 Employee benefits

Employee entitlements

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

7.17.22 Dividends

Provision is made for the amount of any dividend declared at or before the end of the financial year but not distributed at balance date.

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

INVESTIGATING ACCOUNTANT'S REPORT

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8.

INVESTIGATING ACCOUNTANT'S REPORT

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Securities Ltd
ACN 003 311 617
ABN 54 003 311 617
Holder of Australian Financial Services Licence No 244572

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
www.pwc.com/au

The Directors
Kathmandu Holdings Limited
11 Mary Muller Drive
Heathcote
Christchurch 8140

19 October 2009

Subject: Investigating Accountant's Report on Historical and Forecast Financial Information and Financial Services Guide

Dear Directors

We have prepared this Investigating Accountant's Report ("Report") on certain historical and forecast financial information of Kathmandu Holdings Limited ("Kathmandu" or the "Company") and Milford Group Holdings Limited ("Milford") for inclusion in a Prospectus dated on or about 19 October 2009 (the "Prospectus") relating to the offer of ordinary shares in the Company (the "Offer").

Expressions defined in the Prospectus have the same meaning in this Report.

The nature of this Report is such that it should be given by an entity which holds an Australian Financial Services licence under the Corporations Act 2001 (Cwlth). PricewaterhouseCoopers Securities Ltd is wholly owned by PricewaterhouseCoopers and holds the appropriate Australian Financial Services licence. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Scope

You have requested PricewaterhouseCoopers Securities Ltd to prepare this Report, which covers the following information:

(a) the NZ$ pro forma consolidated historical income statements and footnotes thereto of Kathmandu for the full year periods ended 31 July 2007, 31 July 2008 and 31 July 2009 as set out in Section 7.3;

(b) the NZ$ consolidated historical statement of financial position and footnotes thereto of Milford as at 31 July 2009 as set out in Section 7.5;

(c) the NZ$ pro forma consolidated statement of financial position and footnotes thereto of Kathmandu as at 31 July 2009 as set out in Section 7.5, which assumes completion of the contemplated transactions disclosed in Section 7.5 of the Prospectus (the "Pro Forma Transactions"); and

(d) the NZ$ pro forma consolidated historical summary cash flow statements and footnotes thereto for Kathmandu for the full year periods ended 31 July 2007, 31 July 2008 and 31 July 2009 as set out in Section 7.6,

(collectively, the "Historical Financial Information");

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(e) the NZ$ pro forma consolidated forecast income statement and footnotes thereto of Kathmandu for the year ending 31 July 2010 as set out in Section 7.3; and

(f) the NZ$ pro forma consolidated forecast summary cash flow statement and footnotes thereto of Kathmandu for the year ending 31 July 2010 as set out in Section 7.6,

(collectively, the “Forecast Financial Information” or the “Forecasts”).

This Report has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the Historical Financial Information or the Forecasts to which it relates for any purposes other than the purpose for which it was prepared.

Scope of review of Historical Financial Information

The Historical Financial Information set out in Section 7.3, 7.5 and 7.6 of the Prospectus has been derived from the audited financial statements of Milford, which were audited by PricewaterhouseCoopers New Zealand that issued unqualified audit opinions on the financial statements. The Historical Financial Information incorporates such adjustments as the Directors considered necessary to reflect the operations of the Company going forward. The Directors are responsible for the preparation of the Historical Financial Information, including determination of the adjustments.

We have conducted our review of the Historical Financial Information in accordance with Australian Auditing Standards applicable to review engagements. We made such inquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- an analytical review of the historical financial performance of Milford for the relevant historical period;
- a review of work papers, accounting records and other documents provided by the Company;
- a review of the pro forma and other adjustments made to arrive at the NZ$ pro forma consolidated historical income statements and NZ$ pro forma consolidated historical summary cash flow statements, as set out in Section 7.13.1 and the footnotes to these statements;
- a review of the Pro Forma Transactions used as the basis for the NZ$ pro forma consolidated statement of financial position;
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in New Zealand and the accounting policies adopted by the Company summarised in Section 7.17 of the Prospectus; and
- enquiry of Directors, management and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Historical Financial Information.

Review statement on Historical Financial Information

Based on our review of the Historical Financial Information, which is not an audit, nothing has come to our attention which causes us to believe that:

- the NZ$ pro forma consolidated statement of financial position of Kathmandu as at 31 July 2009 has not been properly prepared on the basis of the Pro Forma Transactions

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- the Pro Forma Transactions do not form a reasonable basis for the pro forma statement of financial position
- the Historical Financial Information, as set out in Section 7.3, 7.5 and 7.6 of the Prospectus, does not present fairly:

  (a) the NZ$ pro forma consolidated historical income statements of Kathmandu for the full year periods ended 31 July 2007, 31 July 2008 and 31 July 2009;
  (b) the NZ$ consolidated historical statement of financial position of Milford as at 31 July 2009;
  (c) the NZ$ pro forma consolidated statement of financial position of Kathmandu as at 31 July 2009 after reflecting the Pro Forma Transactions; and
  (d) the NZ$ pro forma consolidated historical summary cash flow statements for Kathmandu for the full year periods ended 31 July 2007, 31 July 2008 and 31 July 2009,

in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in New Zealand, and accounting policies adopted by the Company summarised in Section 7.17 of the Prospectus.

Scope of review of Forecasts

The Directors are responsible for the preparation and presentation of the Forecasts, including the best estimate assumptions set out in Section 7.11 on which the Forecasts are based.

Our review of the best estimate assumptions underlying the Forecasts was conducted in accordance with Australian Auditing Standards applicable to review engagements. Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary so as to form an opinion as to whether anything has come to our attention which causes us to believe that:

(a) the best estimate assumptions do not provide a reasonable basis for the Forecasts;
(b) in all material respects, the Forecasts are not properly prepared on the basis of the best estimate assumptions and presented fairly in accordance with the recognition and measurement principles prescribed in New Zealand Accounting Standards and other mandatory professional reporting requirements in New Zealand, and the accounting policies adopted by the Company summarised in Section 7.17 of the Prospectus; or
(c) the Forecasts are unreasonable.

The Forecasts have been prepared by the Directors to provide investors with a guide to the Company's potential future financial performance based upon the achievement of certain economic, operating, development and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of the Forecasts. Actual results may vary materially from the Forecasts and the variation may be materially positive or negative. Accordingly, investors should have regard to the investment risks set out in Section 9 respectively of the Prospectus.

Our review of the Forecasts and the best estimate assumptions upon which the Forecasts were based is substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the Forecasts included in the Prospectus.

Review statement on the Forecasts

Based on our review of the Forecasts, which is not an audit, and our review of the reasonableness of the best estimate assumptions giving rise to the Forecasts, nothing has come to our attention which causes us to believe that:

(a) the best estimate assumptions set out in Section 7.11 of the Prospectus do not provide a reasonable basis for the Forecasts;
(b) the Forecasts are not properly prepared on the basis of the best estimate assumptions and presented fairly in accordance with the recognition and measurement principles prescribed in New Zealand Accounting Standards and other mandatory professional reporting requirements in New Zealand, and the accounting policies adopted by the Company summarised in Section 7.17 of the Prospectus; and
(c) the Forecasts are unreasonable.

The best estimate assumptions set out in Section 7.11 of the Prospectus which form the basis of the Forecasts are subject to significant uncertainties and contingencies, which are often outside the control of the Company. If events do not occur as assumed, actual results achieved by the Company may vary significantly from the Forecasts. Accordingly, we do not confirm or guarantee the achievement of the Forecasts, as future events, by their very nature, are not capable of independent substantiation.

Subsequent events

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary business of the Company or Milford have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Independence or Disclosure of Interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of this offer other than the preparation of this Report and participation in due diligence procedures for which normal professional fees will be received.

Liability

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this Report in the Prospectus and to the references to the Report in the Prospectus, in the form and context in which they are included. Any liability of PricewaterhouseCoopers Securities Ltd in relation to the likely audience of the Prospectus is limited to the inclusion of this Report in the Prospectus (and any references in the Prospectus to the Report to which PricewaterhouseCoopers Securities Limited has consented). PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or any omissions from, the Prospectus.

Financial Services Guide

We have included our Financial Services Guide as Appendix A to our Report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our Report.

Yours faithfully

Glen Hadlow
Authorised Representative
PricewaterhouseCoopers Securities Ltd

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APPENDIX A

PRICEWATERHOUSECOOPERS SECURITIES LTD
FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 19 October 2009

1. **About us**

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) ("**PwC Securities**") has been engaged by Kathmandu Holdings Limited ("**Kathmandu**") to provide a report in the form of an Investigating Accountant's Report in relation to the Kathmandu Historical and Forecast Financial Information (**the "Report**") for inclusion in the prospectus dated 19 October 2009.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. **This Financial Services Guide**

This Financial Services Guide ("**FSG**") is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. **Financial services we are licensed to provide**

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

4. **General financial product advice**

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

5. **Fees, commissions and other benefits we may receive**

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees have been charged based on hourly rates and included in Section 10 of the Prospectus.

PRICEWATERHOUSECOOPERS

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

6. **Associations with issuers of financial products**

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business. PricewaterhouseCoopers is the auditor of Kathmandu.

7. **Complaints**

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Service ("**FOS**"), an external complaints resolution service. FOS can be contacted by calling 1300 780 808. You will not be charged for using the FOS service.

8. **Contact Details**

PwC Securities can be contacted by sending a letter to the following address:

Glen Hadlow
PricewaterhouseCoopers Securities Ltd
201 Sussex Street
SYDNEY NSW 2000

RISK FACTORS

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RISK FACTORS

9.1 INTRODUCTION

There are a number of risks, both specific to Kathmandu and of a general nature, which may either individually, or in combination, materially and adversely affect the future operating and financial performance of Kathmandu, its investment returns and the value of the Shares. Many of these risks are outside the control of Kathmandu, its Directors and management. There can be no guarantee that Kathmandu will achieve its stated objectives or that any forward looking statements or forecast will eventuate.

This Section describes the areas that are believed to be the key risks associated with an investment in the Shares. These risks have been separated into business risk factors (described in Section 9.2) and investment risk factors (described in Section 9.3). Prospective investors should note that this is not an exhaustive list of the risks associated with an investment in Kathmandu and should be considered in conjunction with other information disclosed in this Prospectus. Investors should have regard to their own investment objectives and financial circumstances, and should consider seeking professional guidance from their stockbroker, solicitor, accountant or other independent professional adviser before deciding whether to invest.

9.2 BUSINESS RISK FACTORS

9.2.1 Deterioration in the retail environment

As a discretionary retailer, Kathmandu is exposed to general economic conditions. The retail environments in all the countries in which Kathmandu operates are currently experiencing challenging conditions due to volatility in consumer sentiment and retail demand. This has arisen as a result of general uncertainty about future economic conditions, which has been contributed to by factors including the global financial crisis.

To date, the adverse impact on the Australian and New Zealand economies has been relatively constrained. In part, this may be due to a number of measures which have been implemented at a macroeconomic level to stimulate economic activity. These measures include the Australian Federal Government's financial stimulus package and the relaxation of monetary policy by the Reserve Banks of both Australia and New Zealand resulting in a relatively benign interest rate environment. In the UK, there has generally been a more severe impact on the economy attributable in part to the degree of losses suffered by major financial institutions in that region.

There is a risk that Australian and New Zealand economic conditions will worsen, as the effects of the abovementioned measures dissipate and the full impact of the global financial crisis and resulting disruptions to the regional and international economies flows through to lagging indicators such as unemployment rates. There is also a risk that UK economic conditions continue to result in a recessionary and possibly deflationary environment.

In the countries in which Kathmandu trades, if economic conditions deteriorate (and in the case of the UK fail to improve), there is a risk that the retail environment will deteriorate as consumers reduce their level of consumption or redirect their spending to cheaper products or discount stores. Sustained weak economic conditions and consumer sentiment could affect sales or require additional discounting, impacting margins. A reduction in consumer spending or a change in spending patterns is likely to result in a reduction in Kathmandu's revenue and may have a material adverse effect on the Company's future financial performance and financial position.

9.2.2 Damage to the brand

The Kathmandu brand is a crucial asset to the business. The perception of the brand as high quality and technically credible could be adversely impacted by a number of factors, including:

- excessive use of price reductions;
- product quality issues;
- injury caused by Kathmandu clothing or equipment;
- negative press;
- breach of any applicable fair trading regulations or Australian Competition and Consumer Commission or New Zealand Commerce Commission investigations; and
- high profile employee-related issues such as strikes.

Significant deterioration of the Kathmandu brand could have an adverse impact on the Company's future financial performance or position.

9.2.3 Possible deterioration in Kathmandu's competitive position

Kathmandu faces competition from retailers as well as brands and wholesalers. There are very few barriers to entry to the markets in which Kathmandu operates and there is a risk that an existing or new entrant to the market aggressively attempts to grow its market share through store rollout, widespread wholesaling, increased advertising and/or price cutting.

Such activities may cause Kathmandu's competitive position to deteriorate. Any deterioration in Kathmandu's competitive position may result in a decline in revenue and margins and a loss of market share which may have an adverse effect on Kathmandu's future financial performance or position.

9.2.4 Unseasonal weather conditions

Kathmandu's product range, particularly in clothing, is weighted towards winter gear. An unseasonably warm winter, particularly if it coincided with the Company's Easter or Winter Sale, may reduce demand for Kathmandu's product offering, with resulting reductions in sales revenue and margin.

9.2.5 Advertising, marketing or sales promotion failure

Kathmandu's business depends on effective marketing and advertising. There is a risk that one or more marketing or advertising campaigns may be unsuccessful, which may adversely impact margins, reduce overall profitability and have an adverse effect on Kathmandu's future financial performance or position.

In addition, Kathmandu's tri-annual sales account for a significant proportion of revenue each year and require significant inventory to be stocked in preparation. A sale promotion failure could lead to a meaningful increase in working capital, potentially breaching the Company's working capital facility, and a marked reduction in sales revenue.

9.2.6 Product sourcing

Kathmandu's products are sourced and manufactured by a network of third parties, primarily in Asia.

The key risks with Kathmandu's product sourcing include:

- loss or interruption to business of major suppliers;
- increase in cost of materials;
- increase in cost of manufacturing;
- delays or failures in receiving orders; and
- imposition of additional taxes or quotas.

Any of these identified risks may result in increased product sourcing costs for Kathmandu or a reduction in the available product range. This may in turn adversely impact sales and margins, reduce overall profitability and have an adverse effect on Kathmandu's future financial performance or position.

The loss of Kathmandu's GORE-TEX® licence would also negatively impact the product offering and brand perception.

9.2.7 Supply chain

The key risks relating to Kathmandu's supply chain include delays or failures in receiving orders.

This may lead to one or more stores being insufficiently stocked (in particular during sale periods) which will in turn adversely impact margins and reduce overall profitability and have an adverse effect on Kathmandu's future financial performance or position.

Kathmandu is reliant on third parties, such as suppliers and transporters. Such third parties may not be willing or able to perform their obligations; this may adversely impact margins and reduce overall profitability and have an adverse effect on Kathmandu's future financial performance or position.

Kathmandu's internal logistics infrastructure relies heavily on a single distribution centre for each country in which it operates. Any disruption at one of these sites may significantly impact deliveries to stores in its country.

9.2.8 Loss of key management personnel

The loss of key management personnel and an inability to recruit or retain suitable replacement or additional personnel may adversely affect the Company's ability to achieve the Forecasts or its future financial performance or position.

9.2.9 Information Technology ("IT") systems

Kathmandu is reliant on the capability and reliability of its IT systems and backup systems, and those of its external service providers such as communication carriers, to process transactions, manage inventory, report financial results and manage its business.

The failure of any of Kathmandu's IT systems including its retail point of sale and inventory management systems could have a significant impact on the Company's ability to trade and may have an adverse effect on Kathmandu's future financial performance or position.

9.2.10 Regulation and litigation

There is risk that regulation is introduced that restricts trading hours, sales tactics, and marketing campaigns efforts. Such changes could impact the normal operation of Kathmandu and reduce the Company's ability to generate revenue which may have an adverse effect on Kathmandu's future financial performance or position.

Kathmandu may be the subject of complaints or litigation by customers, suppliers, government agencies or other third parties. Such matters may have an adverse affect on Kathmandu's reputation, divert its financial and management resources from more beneficial uses, or have a material adverse effect on Kathmandu's future financial performance or position.

9.2.11 Employment costs

The Australian Federal Government has recently implemented changes to industrial relations legislation which could affect Kathmandu's Australian operations. Some of these changes are already in force while others, including the introduction of modern awards and the National Employment Standards will take effect from 1 January 2010.

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RISK FACTORS

From 1 January 2010, employees formerly covered by the retail award-based transitional instruments in each Australian state will be covered by the General Retail Industry Award 2010. This may impose additional employment related costs on Kathmandu; for example, as a result of increases to penalty and casual loading rates. At this time, the implications of the General Retail Industry Award for Kathmandu and the extent of any transitional arrangements are not yet clear and will need to be monitored and assessed to determine the exact impact on Kathmandu. Any material increase in employment related costs resulting from the introduction of the General Retail Industry Award or other changes to industrial relations, including but not limited to the National Employment Standards, could adversely impact margins and reduce overall profitability and have an adverse effect on Kathmandu's future financial performance or position.

9.2.12 Foreign exchange rates

The majority of goods that are imported by Kathmandu from Asia are priced in US$ and consequently Australian imports are exposed to movements in the A$/US$ exchange rate and New Zealand imports are exposed to the NZ$/US$ exchange rate.

As Kathmandu hedges a high proportion of its foreign currency exposure through forward exchange contracts, significant fluctuations in the A$/US$ and NZ$/US$ exchange rates could result in its competitors sourcing their products at relatively more favourable exchange rates. This may require Kathmandu to reduce its pricing to maintain its competitive position.

As described in Section 7.11.2, Kathmandu's results are also impacted by movements between the NZ$/A$ and the NZ$/UK£, and the company does not currently hedge these exposures.

9.2.13 Property

The growth prospects of Kathmandu are likely to result from increased contribution from existing stores and the Company's ability to continue to open and operate new stores on a profitable basis. The store rollout program is dependent on Kathmandu's ability to secure suitable sites on acceptable terms. A significant increase in rental costs associated with new stores could impact margins and the profitability of some stores. Similarly, the inability of Kathmandu to source new locations in target areas could reduce the Company's ability to continue to expand its store footprint.

9.2.14 Potential impact on existing store sales resulting from new store rollout

Part of Kathmandu's forecast growth is derived from the rollout of new stores in catchment areas of existing stores. This could result in a decline in total profitability if total sales from the catchment do not materially increase. Kathmandu has allowed for the expected impact from new store openings on existing store sales in its forecast based on historical experience.

The level of store penetration is higher in New Zealand than in Australia and consequently the possible incidence of new stores impacting the sales and profitability of existing stores is greater in New Zealand than in Australia. The lower level of penetration in Australia does not, however, preclude new stores from impacting existing stores in that region. There is no guarantee that the level of impact on existing store sales from new store rollouts will not be greater than expected due to new store rollout.

9.2.15 Privacy breaches

The protection of customer, employee and company data is critical to Kathmandu. Kathmandu has access to customer information, in particular, through its Summit Club database. The legal and regulatory environment surrounding information security and privacy is increasingly complex and demanding. A significant breach of customer, employee or company data could attract significant media attention, damage Kathmandu's customer relationships and reputation and ultimately result in lost sales, fines or litigation, which may have an adverse effect on Kathmandu's future financial performance or position.

9.3 INVESTMENT RISK FACTORS

9.3.1 Price of Shares may fluctuate

There are pricing and other risks associated with any investment in a company listed on a stock market. The price of shares on ASX and NZX may rise or fall due to numerous factors which may affect the market performance of Kathmandu, including changes in Australian, New Zealand and other international stock markets and investor sentiment, domestic and world economic conditions and outlook, inflation rates, interest rates, employment, taxation and changes to government policy, legislation or regulation.

The market price for the Shares could be volatile or fluctuate in response to a wide range of factors and actual or anticipated events, including variations in Kathmandu's prospects or operating results, the outlook for the retail, industrial, textile or clothing markets, the discovery or development of competing projects, adverse industry publicity, and other events or factors affecting the operations, financial performance or actual or perceived value of Kathmandu.

9.3.2 Milford Fund Shareholders may retain a significant shareholding

Following completion of the Offer, Goldman Sachs JBWere Principal Investment Area and Quadrant Private Equity may each hold up to 7.5% of the Kathmandu Shares (based on assumptions as set out in Section 3.3).This could make them amongst the largest Shareholders. Consequently, Goldman Sachs JBWere Principal Investment Area and Quadrant Private Equity may have the ability to influence the election of the Directors, the appointment of new management and the potential outcome of all matters submitted to a vote of the Shareholders. The interests of Goldman Sachs JBWere

Principal Investment Area and Quadrant Private Equity and their related parties may differ from the interests of the Company and other Shareholders.

The sale of Shares in the future by Goldman Sachs JBWere Principal Investment Area and Quadrant Private Equity could adversely affect the market price of the Shares.

9.3.3 General economic conditions

The operating and financial performance of Kathmandu is influenced by a variety of general domestic and world economic and business conditions, inflation, interest rates and exchange rates, access to debt and capital markets and government fiscal, monetary and regulatory policies. A prolonged deterioration in any number of the above factors may have a material adverse effect on the financial performance, financial position, cash flows, distributions, growth prospects and share price of Kathmandu.

9.3.4 Taxation changes may occur

Any changes to the current rate of company income tax in jurisdictions where Kathmandu operates will impact on Shareholder returns. Any changes to the current rates of income tax applying to other types of Shareholders will similarly impact on Shareholder returns. In addition, any change in tax rules and tax arrangements between New Zealand and Australia and between New Zealand/Australia and other jurisdictions could have an adverse impact on the level of dividend imputation and franking.

9.3.5 Force majeure events

Events may occur within or outside Australia, New Zealand or the United Kingdom that could impact upon the world economy, the operations of Kathmandu and the price of the Shares. These events include war, acts of terrorism, civil disturbance, political intervention and natural events such as earthquakes, floods, fires and poor weather. Kathmandu has only a limited ability to insure against some of these risks.

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ADDITIONAL INFORMATION

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ADDITIONAL INFORMATION

10.1 INCORPORATION, SHARE CAPITAL AND CORPORATE STRUCTURE

Kathmandu was registered in New Zealand as a company limited by shares on 1 October 2009. Kathmandu's financial year end is 31 July. At the date of the Prospectus, Kathmandu has 100 fully paid ordinary shares on issue held in equal proportions on trust on behalf of certain Milford Fund Shareholders.

Kathmandu's post-Offer corporate structure is described in Section 7.17.1.

10.2 SUMMARY OF RIGHTS AND LIABILITIES ATTACHING TO SHARES AND OTHER MATERIAL PROVISIONS OF KATHMANDU'S CONSTITUTION

10.2.1 Introduction

The rights and liabilities attaching to ownership of Shares arise from a combination of the Constitution, statute, the Listing Rules and general law.

A summary of the significant rights attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that Kathmandu is admitted to the official list of ASX and NZX.

10.2.2 Shares

Each Share gives the holder the right to:

- attend and vote at a meeting of the Company including the right to cast one vote per Share on a poll on any resolution including but not limited to a resolution to:
  - appoint or remove a Director or auditor;
  - adopt or alter the Company's constitution;
  - approve a major transaction;
  - approve the amalgamation of the Company under section 221 of the Companies Act; and
  - put the Company in liquidation.
- dividends paid by the Company in respect of that Share;
- an equal share with other ordinary shares in the distribution of surplus assets in any liquidation of the Company;
- be sent certain Company information; and
- the other rights as a shareholder conferred by the Companies Act and the Constitution.

The principal company law rules affecting the Company are set out in the Companies Act and in the Constitution. The following is a summary of material rights, privileges, restrictions and conditions attaching to Shares. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that Kathmandu is admitted to the official list of ASX and NZX.

10.2.3 Dividends and other distributions

The authorisation and payment of distributions (which includes dividends) are subject to certain procedural preconditions prescribed in the Companies Act and the Constitution.

If the Directors are satisfied on reasonable grounds that the Company will, immediately after the distribution, satisfy the tests prescribed in the legislation as to solvency of the Company, they may authorise such distribution at a time, and of an amount, as the Directors think fit. If, after a distribution is authorised and before it is paid, the Directors cease to be so satisfied, the distribution is deemed not to have been authorised.

In addition, the Directors must not authorise a dividend in respect of some but not all shares in a class, or that is of a greater value per share in respect of some shares of a class than it is in respect of other shares of that class, unless: (a) the amount of the dividend in respect of a share of that class is in proportion to the amount paid to the Company in satisfaction of a liability of the Shareholder under the Constitution; or (b) this ability is specifically prescribed in the terms of issue of the shares (the Shares to be issued pursuant to the Offer do not contain any such term).

Details of the Company's intended dividend policy are set out in Section 7.14. No assurance can be given that dividends will be paid.

10.2.4 Voting entitlements

Each of the Shares confers on holders the right to vote at meetings of Shareholders of the Company. On a vote by voices or show of hands, every holder of Shares present in person or by proxy, by attorney or by their representative, is entitled to one vote.

On a poll, every member (or his or her proxy, attorney or representative) is entitled to one vote for each fully paid Share held and in respect of each Share which is not fully paid, to the number of votes comprising the proportion of votes which would have been exercisable if such Shares were fully paid, equal to that proportion of the total issue of such a Share which has been paid.

10.2.5 Liquidation

In the event of a liquidation of the Company, and after payment of all outstanding debts and subject to the rights attaching to shares from time to time ranking in priority to the Shares, the remaining assets of the Company would be distributed to the holders of Shares, in proportion to the number of Shares held by them less any amount of the issue price of such Shares which remains outstanding.

10.2.6 Financial assistance

The Company will be able to provide financial assistance to a person to purchase shares in the Company in accordance with the restrictions imposed by the Companies Act and the Listing Rules. In particular, the Company would need to satisfy the solvency test prescribed by the Companies, and the Directors would need to resolve that the financial assistance is in the best interests of the Company and that the terms and conditions under which the financial assistance is given are fair and reasonable to the Company.

10.2.7 Constitution

The list below sets out some of the more material features of the Company's constitution. It is not an exhaustive list of all such features and recipients of the Offer should consider inspecting the Constitution themselves (a copy may be obtained by contacting the Kathmandu Offer Information Line). The Constitution should be read in conjunction with the Companies Act.

- Listing Rules: for so long as the Company remains listed on NZX and ASX, the Constitution incorporates by reference all applicable provisions under the NZX Listing Rules and ASX Listing Rules.
- Board of Directors: in general terms, the Board of Directors is elected by the Shareholders of the Company in general meeting.
- Directors' power to issue shares: under the Listing Rules, the Board may issue equity securities with shareholder approval by ordinary resolution and without shareholder approval if made within certain permitted procedures. The Constitution does not otherwise impose any restrictions on the Board's ability to issue shares.
- Forfeiture of shares: the Board has a lien over the shares (and any dividends and proceeds of the shares) for any unpaid amounts in respect of those shares (and certain other amounts payable), and may exercise rights of forfeiture in respect of any unpaid amounts in respect of the shares.
- Acquisition of Shares by the Company: the Company may acquire its own Shares in accordance with the Companies Act and the Listing Rules.
- Amendments: the Constitution can be amended with the approval of shareholders by special resolution.

10.2.8 Minority buy out rights

If, by special resolution, the Company resolves to (a) alter or revoke its Constitution in a way which imposes or removes a restriction on the activities of the Company, (b) approve a major transaction or (c) approve a statutory amalgamation, any shareholder voting against the resolution is entitled to require the Company to purchase, or to arrange for another person to purchase, that Shareholder's Shares for a fair and reasonable price nominated by the Company or, if the Shareholder objects to such a price, a price determined by arbitration. The Company must comply with this requirement unless it obtains a Court exemption or arranges to have the resolution rescinded.

10.2.9 Alteration of shares

In accordance with the Listing Rules, the Constitution and sections 116 and 117 of the Companies Act, the rights of shareholders may not be altered without the approval (by a 75% majority of votes of those entitled to vote and voting) of each 'interest group'. In broad terms, an 'interest group' is a group of shareholders whose rights are affected by the proposed alteration in the same way. For these purposes, the issue of further shares or other securities which rank equally with, or in priority to, the shares, whether as to voting rights, distributions, dividends or otherwise, is deemed not to be an action affecting the rights of shareholders.

10.3 ESCROW ARRANGEMENTS

A number of voluntary escrow arrangements have been entered into prior to the date of this Prospectus in respect of Shares. An 'escrow' is a restriction on sale, disposal, or encumbering of, or certain other dealings in respect of, the securities concerned for the period of the escrow, subject to any exceptions in the escrow arrangement concerned.

Goldman Sachs JBWere Principal Investment Area and Quadrant Private Equity, or their respective custodians, have each entered into voluntary escrow deeds with Kathmandu in respect of all Shares in Kathmandu they hold on completion of the Offer (if any) less any Shares which they hold for the purposes of the call option described in section 10.9.1. Refer to Section 3.3 for a description of the Shares these entities may hold in Kathmandu on completion of the Offer.

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ADDITIONAL INFORMATION

The following members of Management have also entered into voluntary escrow deeds with Kathmandu in respect of the following number of Shares:

Escrowed party	Calculation of number of escrowed Shares	Percentage in escrow of total Shares[1]
Peter Halkett	83,790,000 times the price per Milford Share[2] divided by the Final Price NZ$	0.71%
Mark Todd	21,480,000 times the price per Milford Share[2] divided by the Final Price NZ$	0.18%
Matt Spencer	18,522,000 times the price per Milford Share[2] divided by the Final Price NZ$	0.16%
Tamalin Morton	8,820,000 times the price per Milford Share[2] divided by the Final Price NZ$	0.08%
Caleb Nicolson	4,410,000 times the price per Milford Share[2] divided by the Final Price NZ$	0.04%
Bryan Moore	4,410,000 times the price per Milford Share[2] divided by the Final Price NZ$	0.04%

Note:
1. Indicative percentage of total Shares following the Offer, based on the midpoint of the Indicative Price Range. The actual percentage may be slightly below or above this level.
2. The calculation of the price per Milford Share is described in section 10.5.1.

Under the voluntary escrow deeds, the escrowed party's holding of Shares, are escrowed until the day which is 14 days after Kathmandu has reported its audited financial results for the year ending 31 July 2010.

There are limited circumstances in which the escrow may be released, namely:

- to allow the holder to accept a takeover bid for the Company in accordance with the New Zealand Takeovers Code, provided that holders of not less than 50% of the Shares not subject to escrow which are then on issue have accepted the takeover bid; or
- to allow the escrow Shares to be acquired under an amalgamation or scheme of arrangement or other reorganisation or acquisition of share capital under the Companies Act.

The escrow deeds prevent the escrowed party from giving security over their escrowed Shares.

10.4 EMPLOYEE OPTION PLAN

Kathmandu has established an Employee Option Plan to assist in the attraction, motivation and retention of senior executives and employees of Kathmandu.

Pursuant to the Employee Option Plan, options to subscribe or be transferred Shares may be offered to eligible employees. All full time and part time employees of the Group are eligible employees for the purposes of the Employee Option Plan.

Eligible employees selected by the Board may be invited to apply for a specified number of options. Each option entitles the holder to acquire one Share by paying the prescribed exercise price to the Company once the option has vested in the holder and the relevant exercise conditions have been met. The options may only be exercised within such period as determined by the Board and specified in the terms of the offer made to that employee. The options cannot be transferred without the prior approval of the Board.

If Kathmandu makes any new issue of securities or alterations to its capital by way of a rights issue, distribution of capital (other than a bonus issue, reduction of capital or reconstruction of capital) then, subject to the Listing Rules, the Board may make adjustments to the rights attaching to the options (including the number of Shares which may be acquired on exercise of the options and the exercise price) on any basis it sees fit in its absolute discretion. If there is a reorganisation of the issued share capital of the Company, the number of options or their exercise price, or both, will be changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital.

An initial grant of options under the Employee Option Plan will be made before Kathmandu's listing to the following officers or employees based on a specified Option Plan participation value which will be converted to a number of options under the Option Plan (subject to rounding to the nearest whole number) as described below:

Name	Participation Value	Number of Options
Peter Halkett, Managing Director and Chief Executive Officer	NZ$348,000	Participation Value divided by (0.292 multiplied by the Final Price NZ$)
Mark Todd, Finance Director and Chief Financial Officer	NZ$99,750	Participation Value divided by (0.292 multiplied by the Final Price NZ$)
Three senior New Zealand Employees – Michelle Adams, Caleb Nicolson, Bryan Moore	In relation to the New Zealand employees, in aggregate NZ$107,000.	For each employee, their Participation Value divided by (0.292 multiplied by the Final Price NZ$)
Two senior Australian Employees – Matt Spencer, Tamalin Morton	In relation to the Australian employees, in aggregate A$113,885.	For each employee, their Participation Value divided by (0.292 multiplied by the Final Price)

No payment will be required for the grant of these options and the exercise price will be the Final Price (in the case of Australian employees) and Final Price NZ$ (in the case of New Zealand employees). The exercise of these options will be subject to the satisfaction of certain vesting and exercise conditions set by the Board including that the options vest progressively in three equal tranches on 1 October 2010, 2011 and 2012 subject to a 15% compound total shareholder return ("TSR") being achieved by the Company. If the TSR growth rate is not achieved on the applicable test date there will be retesting of this condition on 1 October 2011, 2012 and 2013. All options will have an expiry date of five years from their date of grant.

10.5 MATERIAL CONTRACTS

10.5.1 Sale Deed

Under the Sale Deed, each of the Milford Shareholders has agreed to sell all of its Milford Shares to Kathmandu. The aggregate consideration payable by Kathmandu for the Milford Shares under the Sale Deed is calculated as the Final Price $NZ multiplied by the number of Shares in Kathmandu following the Offer (being 200 million Shares), less the amount by which the debt in Milford is to be paid down from the Offer proceeds (being NZ$85.7 million), and less the amount of fees and expenses of the Offer (net of tax deductions) incurred by Kathmandu. The price per Milford share is this amount divided by 9,081,072,000.

The Milford Shareholders can elect to receive the consideration for their Milford shares in the form of cash, or a combination of cash and Shares, subject to the consideration in the form of Shares of each Milford Shareholder not exceeding 60% of the aggregate consideration payable to that Milford Shareholder ("First Requirement") and the aggregate consideration in the form of Shares of all Milford Shareholders not exceeding 25% of the aggregate consideration payable to all Milford Shareholders ("Second Requirement"). If the Second Requirement is not met, then the Sale Deed automatically terminates.

The Milford Shareholder representing each member of Management has irrevocably elected to receive a certain proportion of the consideration payable to them for their Milford Shares in the form of Shares. The Shares to be held by Management on completion of the Offer and subject to escrow arrangements are set out in Section 10.3. The Milford Fund Shareholders have not elected the exact proportion of the consideration payable to them for their Milford Shares they will take in the form of Shares – however the managers of the funds comprising the Milford Fund Shareholders have confirmed that this proportion will not exceed 20%. The effect of the irrevocable elections of the Milford Shareholder representing members of Management and the confirmations of the Milford Fund Shareholders is that both the First Requirement and the Second Requirement will be satisfied.

Settlement under the Sale Deed is conditional on the allotment of Shares under the Offer. Settlement of the sale of the Milford Shares under the Sale Deed will occur on the date that condition is satisfied. For the purposes of settlement of the sale of the Milford Shares and payment of the aggregate consideration to be received for the Milford Shares on settlement, the fees and expenses of the Offer (net of tax deductions) incurred by Kathmandu will be assumed to be NZ$15 million. If the fees and expenses of the Offer (net of tax deductions) incurred by Kathmandu exceed NZ$15 million, there will be an adjustment to cash consideration paid at settlement to the Milford Shareholders so that the amount paid to the Milford Shareholders reflects the actual fees and expenses of the Offer (net of tax deductions) incurred by Kathmandu.

10.5.2 Offer Management Agreement

The Company, Milford and the Joint Lead Managers have entered into an Offer Management Agreement. Under the agreement, the Joint Lead Managers have agreed to manage the Offer and completion of the issue of Shares. The Company must pay the Joint Lead Managers a fee of 2.75% of the total proceeds of the Offer on the date of issue of the Shares. The Company may pay each Joint Lead Manager an incentive fee of up to 0.25% of the total proceeds of the Offer. The incentive fee is payable at the absolute discretion of the Company having regard to, among other things, the performance of the Joint Lead Managers in connection with the Offer. The Company must reimburse the Joint Lead Managers for the costs, charges and expenses of and incidental to the Offer. The Joint Lead Managers are required to pay any commissions and fees due to any broker to the Offer. However, the Company must reimburse the Joint Lead Managers for any commissions and fees due to any Australian broker in respect of allocations under the Offer of, in aggregate, up to A$20 million of Shares.

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Under the Offer Management Agreement, Milford has agreed to guarantee the performance by the Company of its obligations under the agreement (including any obligations to pay money).

Under the Offer Management Agreement, the Company and Milford have given certain representations and warranties, and the Company has given certain undertakings, to the Joint Lead Managers. The Company's undertakings include that it will not, during the period following the date of the agreement until 180 days after the date on which Shares are issued under this Prospectus, allot or agree to allot, or indicate that it may or will allot, any equity securities or securities that convert into equity of the Group (other than in connection with the Offer, an employee share or option plan, a non-underwritten dividend reinvestment plan or a bonus share plan described in this Prospectus) without the consent of the Joint Lead Managers (acting reasonably).

Subject to certain exclusions relating to, among other things, fraud, recklessness, negligence and wilful misconduct by an indemnified party, the Company has agreed to keep the Joint Lead Managers and certain affiliated parties indemnified from losses suffered in connection with the Offer.

Each Joint Lead Manager may terminate the Offer Management Agreement by notice to the Company and the other Joint Lead Manager (whether or not with the consent of the other Joint Lead Manager, but only after consultation with the other Joint Lead Manager) if one or more of the termination events set out below occurs (although, in the case of the termination events from paragraphs (t) to (gg) below, a Joint Lead Manager may not terminate the agreement unless it has reasonable grounds to believe and does believe that: (a) the event has or is likely to have a materially adverse effect on the marketing, outcome, success or settlement of the Offer or the likely price at which the Shares will trade on ASX and NZX at any time during the 60 day period following quotation of the Shares; or (b) the event has given or is likely to give rise to (a) a contravention by that Joint Lead Manager of, or that Joint Lead Manager being involved in a contravention of, the Corporations Act or any other applicable law; or (b) a liability of that Joint Lead Manager under any applicable law, regulation or rule of any stock exchange, regulatory body or self regulatory body, or a contract in relation to the Offer):

a. in the reasonable opinion of a Joint Lead Manager, a statement contained in the Prospectus is misleading or deceptive or a matter is omitted from the Prospectus (having regard to the provisions of sections 710, 711 and 716 of the Corporations Act); or

b. the Prospectus or any aspect of the Offer does not comply with the Corporations Act, the Companies Act and the Securities Act 1978 of New Zealand (and all regulations under those acts), the Listing Rules or any other applicable law or regulation; or

c. the Company issues or, in a Joint Lead Manager's reasonable opinion, becomes required to issue a supplementary prospectus because of a circumstance set out in section 719 of the Corporations Act; or

d. at any time after quotation of the Shares, the Shares cease to be quoted on ASX or NZX or there is a suspension or material limitation in trading in the Shares on ASX or NZX; or

e. after lodgement of the Prospectus, the Company withdraws the Prospectus or the Offer; or

f. the Company is prevented from allotting and issuing the Shares within the time required by the timetable in the Offer Management Agreement, the Listing Rules, applicable laws, an order of a court of competent jurisdiction or a government agency; or

g. a closing certificate is not given by the time required by, and in accordance with, the Offer Management Agreement; or

h. the S&P/ASX 200 Index or the NZX 50 falls:
   - at any time before pricing and allocation of the institutional shares under the Offer ("Pricing Time"), by an amount that is 20% or more of the level of the relevant Index as at the close of trading immediately before entry into the Offer Management Agreement; or
   - at any time between the Pricing Time and settlement, by an amount that is 10% or more of the level of the relevant Index as at the Pricing Time;

i. the Company or a related body corporate of the Company is insolvent or there is an act or omission which is likely to result in the Company or a related body corporate of the Company becoming insolvent; or

j. any forecast in the Prospectus is or becomes incapable of being met in the projected timeframe; or

k. ASX withdraws, revokes or amends any ASX waiver required by the Offer; or

l. if any NZX waiver is required, NZX withdraws, revokes or amends any such waiver; or

m. approval is refused or approval which is unconditional or conditional only on customary listing conditions is not granted to:
   - the Company's admission to the official list of ASX and NZX; or
   - the official quotation of all of the Shares on ASX and NZX,

   on or before settlement of the Institutional Offer, or if granted, the approval is subsequently withdrawn, qualified (other than by customary condition) or withheld; or

n. any person whose consent to the issue of the Prospectus is required by section 720 of the Corporations Act who has previously consented to the issue of the Prospectus withdraws such consent or any person otherwise named in the Prospectus with their consent (other than a Joint Lead Manager) withdraws such consent; or

o. an event specified in the timetable of the Offer Management Agreement is delayed for two business days or more, regardless of the cause of such delay (other than any unreasonable delay caused solely by the Joint Lead Managers or any delay agreed between the Company and the Joint Lead Managers); or

p. any of the following occurs:
   - ASIC issues an order under section 739(1), 739(3) or 739(4) of the Corporations Act; or
   - an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Prospectus or ASIC commences any investigation or hearing under Part 3 of the Australian Securities and Investments Commission Act 2001 (Cth) in relation to the Prospectus; or
   - any person gives a notice under section 733(3) of the Corporations Act or any person (other than a Joint Lead Manager) who has previously consented to the inclusion of their name in the Prospectus (or any supplementary Prospectus) or to be named in the Prospectus withdraws that consent; or

q. any application is made by any person for an order under Part 9.5 of the Corporations Act, or to any government agency, in relation to the Prospectus or the Offer, ASIC, the New Zealand Registrar of Companies, the New Zealand Securities Commission or any government agency commences, or gives notice of an intention to hold, any investigation, proceedings or hearing in relation to the Offer or the Prospectus or prosecutes or commences proceedings against the Company, except where (other than where the relevant act is taken by ASIC, the New Zealand Registrar of Companies or the New Zealand Securities Commission) the relevant application, notice, prosecution or proceeding is disposed of or withdrawn to the Joint Lead Managers' reasonable satisfaction and in any event within two business days of commencement or notice and before 5.00pm on the business day before the settlement of the Shares under the Offer; or

r. the other Joint Lead Manager terminates the Offer Management Agreement; or

s. the Company fails to comply with the requirements of the Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008 of New Zealand to enable the Offer to proceed on the basis of the Prospectus, under those regulations; or

t. a representation or warranty contained in the Offer Management Agreement on the part of the Company proves to be, or has been, or becomes, untrue or incorrect; or

u. the Company or Milford fails to perform or observe any of its obligations under the Offer Management Agreement or an obligation of the Company or Milford becomes incapable of being performed or observed or unlikely to be performed or observed by the required time; or

v. there is a contravention by the Company or any entity in the Group of the Corporations Act, the Trade Practices Act 1974 (Cth), the Australian Securities and Investments Commission Act 2001 (Cth), the Companies Act and the Securities Act 1978 of New Zealand (and all regulations under those acts), the Commerce Act 1986 of New Zealand, the Fair Trading Act 1986 of New Zealand, its constitution, or any of the Listing Rules; or

w. a change in senior management or the Board of the Company or Milford occurs (other than a change disclosed in the Prospectus); or

x. a certificate furnished by the Company and Milford in accordance with the Offer Management Agreement is untrue, incorrect or misleading; or

y. there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia, the Parliament of New Zealand or any state of Australia, a new law, or a government agency, any federal or state authority of Australia adopts or announces a proposal to adopt a new policy; or

z. either of the following occurs:
   - a general moratorium on commercial banking activities in Australia, New Zealand, the United States of America or the United Kingdom is declared by the relevant central banking authority in any of those countries, or there is a material disruption in commercial banking or security settlement or clearance services in any of those countries; or
   - trading in all securities quoted or listed on ASX, NZX, the London Stock Exchange or the New York Stock Exchange is suspended or limited in a material respect; or
   - the occurrence of any other adverse change or adverse disruption to the political or economic conditions or financial markets in Australia, New Zealand, Japan, Hong Kong, Singapore, the People's Republic of China, the United Kingdom or the United States of America, or the international financial markets or any change or development involving a prospective adverse change in national or international political, economic or financial conditions; or

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aa. hostilities not presently existing commence (whether war has been declared or not) or a major escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States of America, Japan, the United Kingdom, Russia, a member of the European Union or the People's Republic of China, or a national emergency or war is declared by any of those countries or a major act of terrorism is perpetrated anywhere in the world; or

bb. any adverse change or development involving a prospective adverse change in or affecting the general affairs, management, financial position, shareholders' equity or results of the operations of the Company or any member of the Group (taken as a whole) (including from the position as disclosed in the Prospectus) occurs; or

cc. the due diligence report or any other information supplied by or on behalf of the Company to the Joint Lead Managers in relation to the Group, or the Offer, is untrue, incomplete, misleading or deceptive or proves to be or becomes untrue, incomplete, misleading or deceptive; or

dd. any forecast in the Prospectus is, in the reasonable opinion of a Joint Lead Manager, unlikely to be met in the projected time; or

ee. a Director:
- of the Company or Milford is charged with an indictable offence;
- of the Company or Milford is the subject of any public action by any regulatory body in his or her capacity as Director or there is an announcement by any regulatory body that it intends to take any such action; or
- of the Company is disqualified from managing a corporation under section 383 of the Companies Act; or

ff. the office of a director of the Company is vacated by force of section 383 of the Companies Act; or

gg. any person (other than a Joint Lead Manager) gives a notice under section 730 of the Corporations Act in relation to the Prospectus.

10.6 TAXATION

10.6.1 Introduction

The following is a general description of certain Australian and New Zealand tax consequences of participating in the Offer for investors who are tax residents of Australia ("Australian Investors") or tax residents of New Zealand ("New Zealand Investors") and who will hold Shares acquired through the Offer on capital account. Whether the Shares are ultimately held on capital account (as opposed to revenue account or as trading stock) may depend on the type of investor involved and their specific circumstances.

This is not intended to be an authoritative or complete analysis of the taxation laws of Australia and New Zealand and is based on taxation law and practice in effect at the date of this Prospectus. The comments below do not take into account the specific circumstances of any particular Australian Investor or New Zealand Investor and should not be relied on as such. Australian Investors, New Zealand Investors and all other investors should consult their own professional advisers about the tax consequences of acquiring, holding or disposing of Shares in their own particular circumstances.

Deloitte Touche Tohmatsu Ltd as trustee for the Deloitte Tax Services Trust ("Deloitte") has provided this tax advice. Deloitte is not licensed under Chapter 7 of the Corporations Act to provide financial product advice. Taxation issues, such as those covered by Deloitte's tax advice, are only one of the matters you need to consider when making a decision about a financial product. You should consider taking advice from someone who holds an Australian Financial Services Licence before making such a decision.

10.6.2 Australian tax consequences for Australian Investors

Dividends on Shares

General

Australian Investors will generally be required to include in their assessable income the amount of any dividend received in respect of their Shares in the income year in which it is paid. To the extent that any New Zealand withholding tax is paid in respect of the dividend, the amount included in assessable income should be grossed up for the amount of withholding tax paid. The withholding tax paid should generally give rise to a foreign income tax offset ("FITO") which may be used to offset some or all of the Australian tax payable in respect of the dividend.

Broadly, a FITO will reduce the Australian tax payable on foreign income that has been subject to foreign income tax. The amount of FITO available is equal to the foreign income tax paid, subject to a limit. The FITO limit is the greater of A$1,000 and the Australian tax that would be payable on the Australian Investor's assessable foreign income for the year (less related expenses other than interest). For dividends received on Shares that are held through trusts and are passed through to beneficiaries, the benefits of any FITO may, in some cases, also pass through to the beneficiaries.

For completeness, an Australian Investor that is a company which, broadly speaking, holds a relevant voting interest of 10% or more in the Company would not be required to include dividends on Shares in its assessable income, and as such, would not be entitled to a FITO for New Zealand withholding tax paid.

It is also noted that to the extent a dividend is received in a currency other than Australian dollars (e.g. New Zealand dollars), the amount included in assessable income is to be translated into Australian dollars (generally at the exchange rate applicable on the day the dividend is paid). For the purpose of a FITO, foreign tax is generally translated into Australian dollars at the exchange rate applicable at the time of payment.

Triangular (Trans-Tasman) tax regime

The Triangular (Trans-Tasman) tax regime allows a New Zealand tax resident company, such as the Company, to elect to operate an Australian franking account. As a result, Australian taxes paid by the Kathmandu Group may result in franking credits being attached to dividends paid on Shares. Franking credits must be allocated proportionately to all Shareholders (wherever they are resident).

The Company and its relevant subsidiaries have elected to enter into the Triangular (Trans-Tasman) tax regime. As a result, Australian Investors may be entitled to franking credits and franking tax offsets under Australian tax law for dividends paid on the Shares. The level of franking credits paid on the Shares will depend on the amount of Australian income tax paid and the level of franking credits (if any) attached to future dividends that the Company receives from its wholly-owned Australian subsidiary.

Franking tax offset

Generally, recipients of dividends are required to 'gross up' the amount of the dividend paid by the amount of any franking credits attaching to the dividend. Australian Investors will then be subject to tax at their applicable tax rate on the gross up amount of the dividend paid.

The amount of franking credits attaching to dividends on Shares can generally be used to offset the amount of income tax that an Australian Investor is required to pay, subject to certain rules. In order for Australian Investors to be entitled to claim the tax offset for the franking credit, the recipient of the dividend must be a qualified person.

In broad terms, if an Australian Investor has held their Shares at risk for at least 45 days (excluding the dates of acquisition and disposal), they can claim a tax offset for the amount of franking credits received in respect of the dividend. Individual Australian Investors whose total franking tax offsets (for all franked distributions received in the income year) do not exceed A$5,000 for the income year should be exempt from the 45 day rule. Special rules apply to arrangements that involve the making of related payments to pass on the benefit of any dividends paid.

Australian Investors that are individuals, complying superannuation funds or certain trustees that have franking credits in excess of their income tax liability may be entitled to a tax refund equal to the excess. Australian Investors that are companies are unable to claim refunds for excess franking credits, however, where excess franking credits exist, they will be converted into carry-forward tax losses. Companies should also be entitled to franking credits in their franking accounts equal to the franking credits received in respect of the dividend. Companies may be able to then use the credits to make frankable distributions to their shareholders.

Where Shares are held by trusts or partnerships, and the dividends are passed through to beneficiaries or partners, the benefit of the franking credits may also pass through to those beneficiaries or partners.

For completeness, if a franked dividend is not assessable in the hands of the recipient, the franking credits attached to the dividend are generally not included in the recipient's assessable income and the recipient is not entitled to a franking tax offset equal to the amount of the franking credits. In the context of the Offer, dividends on the Shares may not be assessable to Australian Investors that are companies if they hold a voting interest of 10% or more in the Company or the dividends are paid from profits that have previously been attributed (refer below for further discussion of the foreign income attribution rules). In this case, the recipient Australian Investor company may still be entitled to franking credits in their franking account in respect of the franking credits attached to the dividend received.

New Zealand Foreign Investor Tax Credit regime

The Company may use the New Zealand Foreign Investor Tax Credit regime for the benefit of non-New Zealand tax resident investors. Under this regime, the Company is able to pay an additional or supplementary dividend to non-New Zealand residents, which effectively negates the impact of New Zealand non-resident withholding tax to the extent that the dividend is fully imputed. By utilising this regime, non-New Zealand resident Shareholders receive the same amount of cash (after withholding tax) as New Zealand Investors (before any New Zealand resident withholding tax). The supplementary dividend is funded by a tax credit made available to the Company. The amount of the tax credit made available is equal to the amount of the supplementary dividend.

In broad terms, if the Company pays a supplementary dividend in relation to a franked dividend, the tax offset that an Australian Investor would otherwise receive because of the franking credits attached to the dividend will be reduced by the amount of the supplementary dividend if the taxpayer also receives a FITO. Where this rule applies, the gross up amount to be included in the Australian Investor's assessable income because of the franking credits will be reduced by the amount of the supplementary dividend. The tax offset is reduced by the same amount. In the case of indirect dividend distributions (i.e. through a trust or partnership), a deduction for the supplementary dividend will generally be required rather than a reduction in the gross up amount.

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ADDITIONAL INFORMATION

Foreign income attribution rules

The Australian income tax law contains provisions that, in certain circumstances, may attribute income to Australian tax residents in respect of their interests in non-Australian companies, even if that income has not have been received from the non-Australian company.

Controlled foreign company rules

In broad terms, the controlled foreign company ("CFC") rules may apply where a non-Australian company is regarded as controlled by Australian residents. The determination of whether a non-Australian company is controlled by Australian residents is complex and involves tracing through indirect interests and considering interests held by Australian and non-Australian associates. In broad terms, a non-Australian company will be taken to be a CFC where:

- five or fewer Australian resident entities together with their associates have 50% or more of the interests in the non-Australian company;
- a single Australian entity and its associates have 40% or more of the interests in the non-Australian company (unless the Australian entity can establish that it, together with its associates, does not control the non-Australian company); or
- the non-Australian company is controlled by five or fewer Australian resident entities either alone or together with its associates.

If one of these rules is satisfied and the Company is a CFC, an Australian Investor will potentially be subject to attribution under the CFC rules. Attribution can generally only occur where an Australian Investor (together with their associates) holds at least 10% of the Shares, although in certain limited cases, attribution can occur where an Australian Investor (together with their associates) holds at least 1% of the Shares.

The attributable income of a CFC is, in broad terms, calculated in accordance with Australian tax rules as if the relevant non-Australian entity were an Australian resident, subject to certain modifications. For listed countries, such as New Zealand and the UK, there are only limited categories of income that are included in the calculation of attributable income (e.g. certain untaxed capital gains in New Zealand). Furthermore, where a CFC passes the active income test, the CFC should generally have no attributable income.

The comments made above are based on the CFC rules as currently drafted. It should be noted that the Federal Government has announced it intends to amend Australia's CFC rules as part of its reform of Australia's foreign source income rules. These changes are expected to come into effect from 1 July 2010, at the earliest.

Foreign investment fund rules

The foreign investment fund ("FIF") rules may apply in certain circumstances where an Australian resident has an interest in a non-Australian company at the end of an income year and the CFC rules are not applicable to that Australian resident. The broad impact of the FIF rules is that the Australian resident may be required to include an amount in their assessable income referable to their investment in the non-Australian company, unless an exemption applies. In the context of the Offer, the following exemptions from the FIF rules are noted and may be relevant:

- the de-minimis exemption under which a taxpayer who is an individual (other than in the capacity of a trustee) will be exempt from the FIF rules if the value of all the taxpayer's FIF interests at year end is less than A$50,000;
- the exemption for complying superannuation entities investing in FIFs;
- the balanced portfolio exemption under which a taxpayer will be exempt from the FIF rules if the value of a taxpayer's non-exempt FIF interests does not exceed 10% of the total value of all the taxpayer's FIF interests; and
- the active business exemption whereby a taxpayer will not be subject to the FIF rules if the Company is regarded as principally engaged in eligible activities.

Relevantly, a non-Australian company will satisfy the active business exemption if it is included by an approved stock exchange (including ASX and NZX) in a class of companies engaged in the activities of a kind that are eligible activities. Based on the anticipated classification of the Company for ASX and NZX purposes, it is considered that the active business exemption should be available to exempt Australian Investors from FIF attribution in respect of their interests in the Company while the Company continues to be classified as such.

As part of the Federal Government's review of the foreign source income rules, the Federal Government has also announced its intention to repeal the FIF provisions and to replace these rules with a specific anti-avoidance rule. The existing FIF rules will continue to apply until the new measures are introduced, which is expected to be 1 July 2010 at the earliest.

The comments above are of a general nature only and Australian Investors should seek their own tax advice on the application of the CFC and FIF rules and forthcoming reforms based on their particular circumstances and on the Company's status at the relevant times.

Disposal of Shares

Shares acquired by an Australian Investor pursuant to the Offer will constitute an Australian capital gains tax ("CGT") asset. Any subsequent disposal of the Shares will be subject to the CGT rules.

Australian Investors will be assessable on any capital gain derived on the disposal of their Shares. A capital gain will generally arise to the extent that the proceeds from the disposal of the Shares are greater than the cost base of the shares. Conversely, a capital loss will be made where the capital proceeds are less than the reduced cost base of the Shares.

Capital losses may be used to offset capital gains made in the same income year or may be carried forward to be offset against future capital gains, subject to the satisfaction of certain loss recoupment rules relevant to certain types of shareholders.

The cost base and reduced cost base of the Shares will generally be the cost of acquiring the Shares plus any incidental costs associated with both the acquisition and disposal of the Shares. The first element of the cost base or reduced cost base of the Shares will include the Final Price (i.e. the price paid for the Shares in the Offer). The cost base and reduced cost base of the Shares will be reduced for any non-assessable capital payment made by the Company. Where the non-assessable capital payment is more than the cost base of the Shares, the Australian Investor will make a capital gain and the cost base/reduced cost base of the Shares will be reduced to nil.

Broadly, where the Shares have been held for at least 12 months prior to disposal and the Australian Investor is an individual, a complying superannuation fund or a trust, the amount of the capital gain should be reduced by the applicable CGT discount. Capital losses must be applied first to reduce capital gains before applying the relevant discount concession percentage to the capital gain to determine the net assessable capital gain. The discount percentage for individuals and trusts is 50%, and 33% for complying superannuation funds. Australian Investors that are companies are not eligible for the CGT discount.

An Australian Investor that is a company, which, broadly speaking, holds a relevant direct voting interest of 10% or more in the Company throughout a continuous 12 month period (beginning no earlier than 24 months before the disposal), may have the amount of capital gain or loss reduced to the extent that the company has underlying active business assets.

For completeness, it is noted that to the extent amounts relevant to determining a capital gain or loss are in a currency other than Australian dollars, the amount or value is to be translated to Australian dollars at the exchange rate applicable at the time of the relevant transaction or event (e.g. at the time of acquisition or disposal).

Stamp duty

There should be no Australian stamp duty payable on the issue of Shares pursuant to the Offer. Under current stamp duty legislation, stamp duty would not ordinarily be payable on any subsequent transfer of Shares provided the Company remains listed on the ASX or NZX.

Goods and services tax (“GST”)

No Australian GST liability should arise on either the issue of the Shares pursuant to the Offer or on the subsequent transfer of the Shares.

10.6.3 New Zealand tax consequences for New Zealand Investors

Dividends on Shares

New Zealand Investors will generally be required to include in their assessable income the amount of any dividend received in respect of their Shares in the income year in which it is received (including the amount of any imputation credits attached to the dividend). New Zealand Investors would then be subject to tax at their applicable tax rate on the imputation credit inclusive amount of the dividend.

Imputation credits attached to a dividend will generally give rise to a tax credit and may be used against the tax liability of the New Zealand Investor for the year in which the dividend is received. For a New Zealand Investor who is an individual, any excess imputation credits may be carried forward to future years. For a New Zealand Investor that is a company, any excess imputation credits are converted into a tax loss and may be carried forward to offset against net income in subsequent years (subject to meeting the necessary shareholder continuity requirements).

Unless the New Zealand Investor has notified the Company that it holds a valid certificate of exemption from resident withholding tax and has provided the Company with a copy of the certificate, resident withholding tax will be deducted from any dividend to the extent that the dividend is imputed at a rate less than 33%. A credit of tax should be available for any resident withholding tax withheld to offset the New Zealand Investor’s tax liability for the year the dividend is paid. To the extent that the resident withholding tax credit exceeds the New Zealand Investor’s tax liability, the resident withholding tax may be refunded by the Inland Revenue Department by filing an income tax return for the year in question.

Disposal of Shares

Amounts derived by New Zealand Investors from the sale, or other disposal, of the Shares should not be included in assessable income if the Shares are held on capital account. For completeness, it is noted that proceeds from sale may still be taxable if, for example, the New Zealand Investor deals in equities or otherwise has acquired the Shares for the purpose of sale or has sold the Shares as part of a profit-making undertaking. New Zealand Investors may also be taxable on proceeds from sale if they are engaged in the business of life insurance.

It is also noted that a gain or loss made by a Portfolio Investment Entity investor from the sale, or other disposal, of a share issued by a company resident in New Zealand is excluded income of the Portfolio Investment Entity investor subject to meeting certain requirements.

New Zealand Investors should seek their own tax advice about whether the proceeds from sale will be taxable.

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ADDITIONAL INFORMATION

Stamp duty

As New Zealand no longer has stamp or conveyance duty, there should be no New Zealand stamp duty payable on the issue of Shares pursuant to the Offer or on the subsequent transfer of the Shares.

GST

No New Zealand GST liability should arise on either the issue of the Shares pursuant to the Offer or on the subsequent transfer of the Shares.

10.7 DISCUSSION OF NEW ZEALAND COMPANY LAW AND NZ FOREIGN INVESTMENT RULES

10.7.1 Takeovers Code

The Company will be a code company regulated by the Takeovers Code. The Takeovers Code, amongst other things, prohibits any person from becoming the holder or controller of an increased percentage of voting rights in the Company if, after that increase, that person (together with its Associates (as defined in the Takeovers Code)) will hold or control more than 20% of the voting rights in the Company, other than in compliance with the requirements of the Takeovers Code.

Under the Takeovers Code, if a person or two or more persons acting jointly or in concert become a dominant owner of the Company (that is become the holders or controllers of 90% or more of the voting rights in the Company by any method and at any time) that dominant owner must immediately send a written notice of that fact to the Company, the Takeovers Panel and NZX. The dominant owner will then have the right to acquire all the outstanding securities in the Company and similarly each other securityholder in the Company will have the right to sell their outstanding securities in the Company to the dominant owner, in each case in accordance with Part 7 of the Takeovers Code.

Investors are advised to seek legal advice in relation to any act, omission or circumstance which may result in that investor breaching or becoming in breach of any provision of the Takeovers Code.

As the Company is incorporated in New Zealand, it is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of shares in relation to substantial holdings and takeovers.

10.7.2 Overseas Investment Office

Any person who is an overseas person for the purposes of the Overseas Investment Act 2005 (NZ) (which includes any individual who is neither a New Zealand citizen nor ordinarily resident in New Zealand, and a body incorporate that is incorporated outside of New Zealand or is 25% or more held by overseas persons) and who intends to acquire more than 25% of the Shares will be required to obtain consent under the Overseas Investment Act 2005 before acquiring those Shares.

10.7.3 Substantial securityholder notices

Under the Securities Markets Act 1988 (NZ), every person who acquires a relevant interest (as defined in the Securities Markets Act 1988) in 5% or more of the voting securities in the Company will be required to provide a substantial securityholder notice disclosing that interest to the Company and NZX. That person must also provide notice of certain subsequent changes in the total number of voting securities in which the person is interested, or any change in the nature of their relevant interest. Failure to give such notifications can result in serious consequences.

10.7.4 Restricted transactions

Subject to certain exceptions, the NZX Listing Rules require the approval of the Company's Shareholders by ordinary resolution (or special resolution if special resolution approval is also required for the transaction under section 129 of the Companies Act) for any transaction entered into by any member of the Group in which the gross value of the transaction is greater than 50% of the average market capitalisation of the Company or that will change the essential nature of the Company's business. (The ASX Listing Rules also contain provisions which require the approval of shareholders to certain significant changes to the nature or scale of the activities, or disposal of major assets, by listed entities in certain circumstances.)

Section 129 of the Companies Act requires special resolution approval prior to the Company entering into any transaction (whether by way of an acquisition, disposition or otherwise) involving more than half the value of the Company's assets before the acquisition, disposition or otherwise.

Subject to certain exceptions, the NZX Listing Rules also require the approval of the Company's shareholders by ordinary resolution for any material transaction entered into by any member of the Group where a related party is a direct or indirect party to that transaction (or at least one of a related series of transactions of which that material transaction forms part). (The ASX Listing Rules contain similar provisions.)

The NZX Listing Rules also restrict any issue, acquisition or redemption of securities by the Company if there is a significant likelihood that such transaction will result in any person or group of associated persons (who already hold at least 1% of the votes attaching to securities of the Company) materially increasing their ability to exercise, or direct the exercise of, effective control of the Company. (The ASX Listing Rules restrict certain dealings between listed entities and related parties, including the issue of equity securities to related parties, unless the requisite shareholder approval has been obtained or an exemption applies.)

10.8 DEED OF ACCESS, INDEMNITY AND INSURANCE

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

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

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

10.9 INTERESTS AND FEES OF CERTAIN PEOPLE INVOLVED IN THE OFFER

This Section sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of Kathmandu; or
- stockbroker to the Offer,

holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of Kathmandu;
- property acquired or proposed to be acquired by Kathmandu in connection with its formation or promotion, or in connection with the Offer; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such persons for services in connection with the formation or promotion of Kathmandu or the Offer.

10.9.1 Directors' interests and remuneration

General interests

Other than as set out below or elsewhere in this Prospectus, no Director or proposed Director holds, holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of Kathmandu;
- property acquired or proposed to be acquired by Kathmandu in connection with its formation or promotion, or in connection with the Offer; or
- the Offer.

Other than as disclosed in this Prospectus, no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to a Director or proposed Director:

- to induce a person to become, or qualify as a Director; or
- for services provided by a Director or proposed Director in connection with the formation or promotion of Kathmandu or the Offer.

Executive Directors

Kathmandu has entered into an employment contract with Peter Halkett to govern Mr Halkett's employment with the Company. Mr Halkett is Managing Director of Kathmandu and is employed in the position of Chief Executive Officer. Mr Halkett will receive an annual cash salary of NZ$580,000, plus an at risk performance incentive up to a maximum of NZ$348,000, which is subject to review in July of each year.

Mr Halkett's employment contract also includes a restraint of trade period of two years. Enforceability of such restraint of trade is subject to all usual legal requirements. On a redundancy, Kathmandu must pay to Mr Halkett an amount equal to three months of Mr Halkett's cash salary plus superannuation.

Kathmandu may terminate the employment of Mr Halkett immediately and without payment in lieu of notice for gross negligence or gross misconduct. Kathmandu or Mr Halkett may terminate Mr Halkett's employment agreement by giving three months notice in writing or in Kathmandu's case payment in lieu of notice.

Mark Todd has also entered into an employment contract with Kathmandu to govern Mr Todd's employment with the Company. Mr Todd is Finance Director and employed in the position of Chief Financial Officer. Mr Todd will receive an annual cash salary of NZ$285,000, plus an at risk performance incentive up to a maximum of NZ$142,500, which is subject to review in July in each year.

Mr Todd's employment contract also includes a restraint of trade period of two years. Enforeceability of such restraint of trade is subject to all usual legal requirements. On a redundancy, Kathmandu must pay to Mr Todd an amount equal to three months of Mr Todd's cash salary plus superannuation.

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ADDITIONAL INFORMATION

Kathmandu may terminate the employment of Mr Todd immediately and without payment in lieu of notice for gross negligence or gross misconduct. Kathmandu or Mr Todd may terminate Mr Todd's employment agreement by giving three months notice in writing or in Kathmandu's case payment in lieu of notice.

The employment agreements of Peter Halkett and Mark Todd entitle them to participate in long-term incentive schemes, including the Employee Option Plan. Peter Halkett and Mark Todd will be granted a number of options under the Employee Option Plan on or about completion of the Offer. Refer to Section 10.4 for further information.

As members of Management, Peter Halkett and Mark Todd will be issued Shares by Kathmandu on completion of the Offer in consideration, in part, for the sale of their Milford Shares to Kathmandu. Refer to Section 3.3 for further information. Details of Peter Halkett's and Mark Todd's escrow arrangements are set out in Section 10.3.

Director remuneration

The NZX Listing Rules provide Directors are each entitled to be paid for their services as a Director such remuneration by the Company as the Directors decide. However, under the ASX Listing Rules and the NZX Listing Rules, the total amount paid to all Directors for their services must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. This amount has been fixed by the Company at A$600,000. For the remainder of the financial year ending 31 July 2010, it is expected that the fees payable to the current Directors will not exceed A$450,000 in aggregate. The remuneration of Directors must not include a commission on, or a percentage of profits or operating revenue.

Payment to Non-Executive Directors for services provided in connection with the Offer

The Milford Fund Shareholders have agreed to pay each of the Non-Executive Directors the following for services provided to Kathmandu in connection with the Offer: James Strong, A$40,000; Sandra McPhee, A$20,000; John Holland, A$20,000; and John Harvey, A$20,000.

Call Option to be granted to the Chairman, Mr James Strong

The Milford Fund Shareholders have agreed to grant to, or procure a nominee to grant to, the Chairman, Mr James Strong, with effect from Listing, an option to purchase ("Call Option") a number of Shares calculated by dividing A$3,000,000 by the Final Price ("Option Shares"). The exercise price of the Call Option will be equal to the Final Price for each Option Share. The Call Option would only be exercisable after the day which is 14 days after the Company has reported its audited financial results for the year ending 31 July 2010 and otherwise during a permitted trading window for dealing in the Company's securities under applicable laws or the Company's securities trading policy. The Call Option will expire on 23 November 2011.

Other information

John Holland, Director, is a passive investor (approximately 0.12%) in the Goldman Sachs JBWere Trans Tasman Private Equity Fund 07 which holds a beneficial interest in 23.8% of the shares in Milford. He is also a partner of Chapman Tripp, the New Zealand legal adviser to Kathmandu in relation to the Offer as described in Section 10.9.2.

Directors may also be reimbursed for travel and other expenses incurred in attending to the Company's affairs.

Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra work or services which are not in the capacity as director of the Company or a subsidiary.

There are no retirement benefit schemes for Directors, other than statutory superannuation contributions.

Directors Shareholdings

Directors are not required under the Constitution to hold any Shares in Kathmandu. As at the date of this Prospectus, no Director directly holds shares in Kathmandu. The Directors (and their associates) are entitled to apply for Shares in the Offer. The only Directors that will hold Shares on completion of the Offer (unless they are issued Shares as a part of this Offer) will be Peter Halkett and Mark Todd (as described in Section 3.3). James Strong will hold the Call Options referred to above.

10.9.2 Interests of professionals

The Company has engaged the following professional advisers:

- Goldman Sachs JBWere Pty Ltd and Macquarie Capital Advisers Limited have acted as Joint Lead Managers to the Offer, (and Goldman Sachs JBWere (NZ) Limited and Macquarie Securities (NZ) Limited have acted as Organising Participants to the Offer) and the fees payable to each Joint Lead Manager are described in Section 10.5.2;
- Clayton Utz has acted as Australian legal adviser to Kathmandu in relation to the Offer. Kathmandu has paid, or agreed to pay, approximately A$440,000 (excluding disbursements and Australian Goods and Services Tax) for these services up until the date of this Prospectus. Further amounts may be paid to Clayton Utz in accordance with its normal time-based charges;
- Chapman Tripp has acted as New Zealand legal adviser to Kathmandu in relation to the Offer. Kathmandu has paid, or agreed to pay, approximately NZ$350,000 (excluding disbursements and New Zealand Goods and Services Tax) for these services up until the date of this Prospectus. Further amounts may be paid to Chapman Tripp in accordance with its normal time-based charges;
- PricewaterhouseCoopers Securities Ltd has acted as Investigating Accountant and has prepared the Investigating

- Accountant's report and has performed work in relation to due diligence enquiries. Kathmandu has paid, or agreed to pay, approximately A$275,000 (excluding disbursements and Australian Goods and Services Tax) for the above services up until the date of this Prospectus. PricewaterhouseCoopers acts as auditor of Kathmandu; and
- Deloitte Touche Tohmatsu Ltd has acted as taxation adviser to the Company in relation to the Offer. Kathmandu has paid or agreed to pay approximately A$140,000 (excluding disbursements and Australian Goods and Services Tax) for these services.

First NZ Capital Securities Limited has agreed to act as Co-Manager to the Offer in New Zealand. It will be paid fees up to 1.5% in respect of the Shares it is allocated. All of the amounts payable to First NZ Capital Securities Limited are payable by the Joint Lead Managers out of the fees payable to them under the Offer Management Agreement.

Commonwealth Securities Limited has agreed to act as Co-Manager to the Offer in Australia. It will be paid fees up to 1.5% in respect of the Shares it is allocated. All of the amounts payable to Commonwealth Securities Limited are payable by the Joint Lead Managers out of the fees payable to them under the Offer Management Agreement. However, in accordance with the Offer Management Agreement, the Company must reimburse the Joint Lead Managers for any commissions and fees due to any Australian broker in respect of allocations under the Offer of, in aggregate, up to A$20 million of Shares.

Certain of the Milford Fund Shareholders are managed by members of the Goldman Sachs JBWere group of companies or Quadrant Private Equity Pty Limited and hold or have an interest in securities in the various entities that comprise the Group. The securities held by or on behalf of these entities confer on the underlying funds of such Milford Fund Shareholders (including certain Goldman Sachs JBWere employee entities) a right to share in the Offer proceeds on completion of the Offer. At the date of this Prospectus one or more employees or former employees of the entities within the Goldman Sachs JBWere or Quadrant groups of companies are directors of Milford. Subject to the completion of the Offer, these directors will resign their position on the board of Milford. Milford Fund Shareholders and affiliates of any of them may apply for Offer Shares under the Offer.

10.10 CONSENTS TO BE NAMED AND DISCLAIMERS OF RESPONSIBILITY

None of the parties referred to below (each a 'Consenting Party') has made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, other than as specified below. Each Consenting Party, to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility for any statements in or omissions from this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified below. Each of the Consenting Parties has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named:

Goldman Sachs JBWere Pty Ltd	Macquarie Capital Advisers Limited
Goldman Sachs JBWere (NZ) Limited	Macquarie Securities (NZ) Limited
First NZ Capital Securities Limited	Link Market Services Limited
Commonwealth Securities Limited	Clayton Utz
PricewaterhouseCoopers Securities Ltd	Chapman Tripp
PricewaterhouseCoopers	Deloitte Touche Tohmatsu Ltd
Australian Wildlife Conservancy	First Foundation
Maximum Adventure Pty Limited	Outward Bound
Sport & Recreation New Zealand	W.L. Gore & Associates (Australia) Pty Ltd
Tourism Research Australia	Australian Sports Commission
Goldman Sachs JBWere PIA (Management) Pty Limited and Goldman Sachs JBWere (NZ) Private Equity Limited	Quadrant Private Equity Pty Limited

Each of PricewaterhouseCoopers Securities Ltd, PricewaterhouseCoopers, Deloitte Touche Tohmatsu Ltd, First Foundation, Australian Wildlife Conservancy, Outward Bound, Maximum Adventure Pty Limited, W.L. Gore & Associates (Australia) Pty Ltd, Sport & Recreation New Zealand, Australian Sports Commission and Tourism Research Australia has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its consent for the inclusion of a statement by it, or a statement said to be based on a statement by it, in the form and context in which it appears in this Prospectus.

10.11 EXPENSES OF THE OFFER

If the Offer proceeds, the total expenses of the Offer are estimated at approximately NZ$15 million. This includes advisory, legal, accounting, tax, listing and administrative fees, the Joint Lead Managers' management fees (including the discretionary incentive fee), Prospectus design and printing, advertising, marketing, Share Registry and other expenses. This amount will be paid by the Company out of funds raised under the Offer. The consideration payable for the acquisition by Kathmandu of the shares in Milford from the Milford Shareholders will be reduced by the amount of the fees and expenses of the Offer, net of tax deductions.

10.12 GOVERNING LAW

This Prospectus and the contracts that arise from the acceptance of the Applications and bids are governed by the laws applicable in Victoria and each Applicant or bidder submits to the exclusive jurisdiction of the courts of Victoria.

10.13 LEGAL PROCEEDINGS

The Company is not aware of any proceedings, which it expects will lead to significant liability exposure for the Company.

10.14 FOREIGN SELLING RESTRICTIONS

No action has been taken to register or qualify the Shares that are the subject of the Offer, or otherwise to permit a public offering of the Shares, in any jurisdiction outside Australia and New Zealand. The Offer is not an offer or invitation in any jurisdiction where, or to any person to whom, such an offer or invitation would be unlawful.

European Economic Area – Belgium, Germany, Luxembourg and Netherlands

The information in this Prospectus has been prepared on the basis that all offers of Offer Shares will be made pursuant to an exemption under the Directive 2003/71/EC ("Prospectus Directive"), as implemented in Member States of the European Economic Area (each, a 'Relevant Member State'), from the requirement to produce a prospectus for offers of securities.

An offer to the public of Offer Shares has not been made, and may not be made, in a Relevant Member State except pursuant to one of the following exemptions under the Prospectus Directive as implemented in that Relevant Member State:

a. to legal entities that are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
b. to any legal entity that has two or more of (i) an average of at least 250 employees during its last fiscal year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000;
c. to fewer than 100 natural or legal persons (other than qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive) subject to obtaining the prior consent of the Company or any underwriter for any such offer; or
d. in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Offer Shares shall result in a requirement for the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

France

This Prospectus is not being distributed in the context of a public offering of financial securities (offre au public de titres financiers) in France within the meaning of Article L.411-1 of the French Monetary and Financial Code (Code monétaire et financier) and Articles 211-1 et seq. of the General Regulation of the French Autorité des marchés financiers ("AMF").
The Offer Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France.

This Prospectus and any other offering material relating to the Offer Shares have not been, and will not be, submitted to the AMF for approval in France and, accordingly, may not be distributed or caused to be distributed, directly or indirectly, to the public in France.

Such offers, sales and distributions have been and shall only be made in France to (i) qualified investors (investisseurs qualifiés) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2° and D.411-1 to D.411-3, D.734-1, D. 744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation and/or (ii) a restricted number of non-qualified investors (cercle restreint d'investisseurs) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2° and D.411-4, D.734-1, D.744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation.

Pursuant to Article 211-3 of the General Regulation of the AMF, investors in France are informed that the Offer Shares cannot be distributed (directly or indirectly) to the public by the investors otherwise than in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Monetary and Financial Code.

Hong Kong

WARNING: This Prospectus has not been, and will not be, registered as a prospectus under the Companies Ordinance (Cap. 32) of Hong Kong (the 'Companies Ordinance'), nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the 'SFO'). No action has been taken in Hong Kong to authorise or register this Prospectus or to permit the distribution of this Prospectus or any documents issued in connection with it. Accordingly, the Offer Shares have not been and will not be offered or sold in Hong Kong by means of any document, other than:

- to 'professional investors' (as defined in the SFO); or
- in other circumstances that do not result in this Prospectus being a 'prospectus' (as defined in the Companies Ordinance) or that do not constitute an offer to the public within the meaning of that ordinance.

No advertisement, invitation or document relating to the Offer Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Offer Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted Offer Shares may sell, or offer to sell, such shares in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such shares.

The contents of this Prospectus have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this Prospectus, you should obtain independent professional advice.

Ireland

The information in this Prospectus does not constitute a prospectus under any Irish laws or regulations and this Prospectus has not been filed with or approved by the Irish Financial Services Regulatory Authority or any other Irish regulatory authority as the information has not been prepared in the context of a public offering of securities in Ireland within the meaning of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005 (the 'Prospectus Regulations'). The Offer Shares have not been offered or sold, and will not be offered, sold or delivered directly or indirectly in Ireland by way of a public offering, except to (i) qualified investors as defined in Regulation 2(l) of the Prospectus Regulations and (ii) fewer than 100 natural or legal persons who are not qualified investors.

Italy

The offering of the Offer Shares in the Republic of Italy has not been authorised by the Italian Securities and Exchange Commission (Commissione Nazionale per le Società e la Borsa, 'CONSOB') pursuant to the Italian securities legislation and, accordingly, no offering material relating to the Offer Shares may be distributed in Italy and such securities may not be offered or sold in Italy in a public offer within the meaning of Article 1.1(t) of Legislative Decree No. 58 of 24 February 1998 ("Decree No. 58"), other than:

- to Italian qualified investors, as defined in Article 100 of Decree No. 58 by reference to Article 34-ter of CONSOB Regulation no. 11971 of 14 May 1999 ("Regulation no. 1197l") as amended ("Qualified Investors"); and
- in other circumstances that are exempt from the rules on public offer pursuant to Article 100 of Decree No. 58 and Article 34-ter of Regulation No. 11971 as amended.

Any offer, sale or delivery of the Offer Shares or distribution of any offer document relating to the Offer Shares in Italy (excluding placements where a Qualified Investor solicits an offer from the issuer) under the paragraphs above must be:

- made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of 1 September 1993 (as amended), Decree No. 58, CONSOB Regulation No. 16190 of 29 October 2007 and any other applicable laws; and
- in compliance with all relevant Italian securities, tax and exchange controls and any other applicable laws.

Any subsequent distribution of the Offer Shares in Italy must be made in compliance with the public offer and prospectus requirement rules provided under Decree No. 58 and the Regulation No. 11971 as amended, unless an exception from those rules applies. Failure to comply with such rules may result in the sale of such Offer Shares being declared null and void and in the liability of the entity transferring the Offer Shares for any damages suffered by the investors.

Norway

This Prospectus has not been approved by, or registered with, any Norwegian securities regulator pursuant to the Norwegian Securities Trading Act of 29 June 2007. Accordingly, this Prospectus shall not be deemed to constitute an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007.

The Offer Shares may not be offered or sold, directly or indirectly, in Norway except:

a. to 'professional investors' (as defined in Norwegian Securities Regulation of 29 June 2007 No. 876);
b. any natural person who is registered as a professional investor with the Oslo Stock Exchange (No. Oslo Børs) and who fulfils two or more of the following: (i) any natural person with an average execution of at least ten transactions in securities of significant volume per quarter for the last four quarters; (ii) any natural person with a portfolio of securities with a market value of at least €500,000; and (iii) any natural person who works, or has worked for at least one year, within the financial markets in a position which presupposes knowledge of investing in securities;
c. to fewer than 100 natural or legal persons (other than 'professional investors', as defined in clauses (a) and (b) above); or
d. in any other circumstances provided that no such offer of Offer Shares shall result in a requirement for the registration, or the publication by the Company or an underwriter, of a prospectus pursuant to the Norwegian Securities Trading Act of 29 June 2007.

Singapore

This Prospectus and any other materials relating to the Offer Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Offer Shares, may not be issued, circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the 'SFA'), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an 'institutional investor' (as defined under the SFA) or (ii) a 'relevant person' (as defined under section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the Offer Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Offer Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to on-sale restrictions in Singapore and comply accordingly.

United Kingdom

Neither the information in this Prospectus nor any other document relating to the Offer has been delivered for approval to the Financial Services Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the Offer Shares. This Prospectus is issued on a confidential basis to 'qualified investors' (within the meaning of section 86(7) of FSMA). This Prospectus should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of s.21 FSMA) received in connection with the issue or sale of the Offer Shares has only been communicated, and will only be communicated, in the United Kingdom in circumstances in which s.21(1) FSMA does not apply to the Company.

In the United Kingdom, this Prospectus is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ("FPO"), (ii) who fall within the categories of persons referred to in Article 49(2) (a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together 'relevant persons'). The investments to which this Prospectus relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

United States

This Prospectus has been prepared for publication in Australia and New Zealand and may not be released or distributed in the United States. This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this Prospectus have not been, and will not be, registered under the US Securities Act of 1933 (as amended) and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the US Securities Act and applicable US state securities laws.

Other jurisdictions

The Offer Shares may not be offered or sold in any other jurisdiction except to persons to whom such offer or sale is permitted under applicable law.

10.15 STATEMENT OF DIRECTORS

The Directors report that, in their opinion, other than as stated elsewhere in this Prospectus no circumstances have occurred since 31 July 2009 which have materially affected or will materially affect the profitability of Kathmandu or the value of its assets and liabilities, except as disclosed in this Prospectus.

Each of the Directors has given and has not withdrawn that person's consent to the lodgement of this Prospectus with ASIC.

GLOSSARY

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GLOSSARY

Term	Definition
ABHI	Australian Better Health Initiative
AEDT	Australian Eastern Daylight Time
Applicant	A person who submits an Application Form
Application	An application made to subscribe for Offer Shares offered under this Prospectus
Application Form	An application form attached to or accompanying this Prospectus
Application Monies or Application Amount	The amount accompanying an Application Form submitted by an investor
ASIC	Australian Securities and Investments Commission
ASTC Settlement Rules	The rules of ASX Settlement and Transfer Corporation Pty Limited
ASX	ASX Limited or the Australian Securities Exchange, as the context requires
Board or Directors or Board of Directors	The board of directors of the Company
bps	Basis points
Broker	Any ASX or NZX participating organisation
Broker Firm Offer	The Offer Shares under this Prospectus to Australian or New Zealand resident retail clients of Brokers who have received a firm allocation from their Broker
CAGR	Compound annual growth rate
CHESS	Clearing House Electronic Subregister System, operated in accordance with the Corporations Act
Closing Date	The date by which Applications must be lodged for the Offer, being Friday, 6 November 2009 for the Retail Offer, unless the Company, Joint Lead Managers and the Milford Fund Shareholders agree to vary these dates
Co-Managers	First NZ Capital Securities Limited and Commonwealth Securities Limited
Companies Act	Companies Act 1993 (NZ)
Company or Kathmandu	Kathmandu Holdings Limited, a company incorporated in New Zealand (company number 2334209) and registered in Australia as a foreign company (ARBN 139 836 918)
Constitution	The constitution adopted by Kathmandu
Corporations Act	Corporations Act 2001 (Cth)
Director	A member of the Board
DPS	Dividends per Share
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Eligible Kathmandu Employee	Any Australian or New Zealand resident who was listed on the Kathmandu employment payroll for the fortnight ended 27 September 2009 in New Zealand or 4 October 2009 in Australia, or any other Kathmandu employee as determined by the Board, and who is not located in the US or acting for the account or benefit of a person located in the US
Employee Option Plan	The option plan established by Kathmandu as further described in Section 10.4
EPS	Earnings per Share

Term	Definition
EV	Enterprise value
Expiry Date	The date 13 months after the date of this Prospectus
Final Price	The price per Share (expressed in A$) which successful Applicants and bidders will pay for Shares in the Offer, as described in Sections 3.4 and 3.5
Final Price NZ$	The New Zealand dollar equivalent of the Final Price calculated by converting the Final Price (expressed in A$) to the New Zealand dollar equivalent using the New Zealand dollar/Australian dollar exchange rate as at 4:00pm AEDT on the Institutional Offer Closing Date, sourced from the Reserve Bank of Australia's website (www.rba.gov.au)
Financial Information	Refers to all Historical Financial Information and Forecast Financial Information in this Prospectus
Forecast(s) or Forecast Financial Information	The Directors' financial forecast for the Company for the financial year ending July 2010 as set out in this Prospectus and as described in Section 7.1
FY2007	Unaudited pro forma financial year ended 31 July 2007
FY2008	Unaudited pro forma financial year ended 31 July 2008
FY2009	Unaudited pro forma financial year ended 31 July 2009
FY2010	Unaudited pro forma forecast financial year ending 31 July 2010
Goldman Sachs JBWere	Goldman Sachs JBWere Pty Ltd (ABN 21 006 797 897)
Goldman Sachs JBWere Principal Investment Area	The Hauraki Private Equity No.2 Fund ("Hauraki Fund") and the Goldman Sachs JBWere Trans-Tasman Private Equity Fund 07 ("TTPE Fund"), two funds managed by members of the Goldman Sachs JBWere group of companies, that hold 24.8% and 23.8% of Milford respectively (and in aggregate they hold 48.6% of Milford). The securities held by or on behalf of the Hauraki Fund are held through Special Managed Investment Company No. 80 Limited. The securities held by or on behalf of the TTPE Fund are held through a number of co-investment vehicles that comprise of the following: Goldman Sachs JBWere Private Equity (A Units) Pty Limited as trustee for the Goldman Sachs JBWere Trans-Tasman Private Equity Fund 07 Trust A, Goldman Sachs JBWere Private Equity (B Units) Pty Limited as trustee for the Goldman Sachs JBWere Trans-Tasman Private Equity Fund 07 Trust B, Goldman Sachs JBWere Private Equity (B Units) Pty Limited as trustee for the Goldman Sachs JBWere Trans-Tasman Private Equity Fund 07 Trust C, TTPE 07 No.1 Limited, and Perpetual Corporate Trust Limited as trustee for various Goldman Sachs JBWere employee fixed trusts.
Group	Kathmandu and its subsidiaries
Growth capex	Capital expenditure incurred to expand the assets of the Company
Historical Financial Information	The financial information described as Historical Financial Information in Section 7.1
Indicative Price Range	The indicative price range for the Offer in A$ (and converted into NZ$ for illustrative purposes only) as specified in Section 3. The Indicative Price Range is indicative only and may be varied at any time by agreement of the Joint Lead Managers and the Milford Fund Shareholders in consultation with Kathmandu

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GLOSSARY

Term	Definition
Institutional Bookbuild	The process through which Institutional Investors and ASX participating organisations are invited to bid for Shares under the Offer
Institutional Investor	An investor to whom offers or invitations in respect of securities can be made without the need for a lodged prospectus (or other formality, other than a formality which the Company is willing to comply with), including in Australia persons to whom offers or invitations can be made without the need for a lodged prospectus under sections 708(8) or 708(11) of the Corporations Act and in New Zealand persons to whom offers or invitations can be made without the need for a registered prospectus under Section 3(2)(a) of the Securities Act 1978 (NZ)
Institutional Offer	The invitation to Institutional Investors under this Prospectus, as described in Section 3.5
Institutional Offer Closing Date	The date that the Institutional Offer and the Institutional Bookbuild close
Investigating Accountant	PricewaterhouseCoopers Securities Ltd (ACN 003 311 617)
IPO	Initial Public Offer
Joint Lead Managers	Goldman Sachs JBWere and Macquarie Capital Advisers
Kathmandu or Company	Kathmandu Holdings Limited, a company incorporated in New Zealand (company number 2334209) and registered in Australia as a foreign company (ARBN 139 836 918)
Kathmandu Employee Offer	The offer of Offer Shares under this Prospectus to Eligible Kathmandu Employees
like for like sales	like for like sales refer to sales of stores that have been open for a full 52 weeks and excludes the sales of any store identified as having sales impacted by a new store opening for a period of 52 weeks from the time at which the new store was opened. Sales from clearance stores, temporary stores and mail order sales are also excluded from the definition
Listing	The official quotation of shares on ASX and NZX
Listing Rules	The listing rules of ASX, the listing rules of NZX or of both, as the context requires
Macquarie Capital Advisers	Macquarie Capital Advisers Limited (ABN 79 123 199 548)
Maintenance capex	Capital expenditure incurred to preserve the existing assets of Kathmandu
Management	Ten employees of the Kathmandu business including those identified in Section 3.3, being beneficial holders on the day of this Prospectus of in aggregate 2.8% of Milford
Milford	Milford Group Holdings Limited, the entity through which the Milford Shareholders hold the operating subsidiaries of the Kathmandu business
Milford Fund Shareholders	Goldman Sachs JBWere Principal Investment Area and Quadrant Private Equity
Milford Shareholders	The shareholders of Milford Group Holdings Limited as at the date of this Prospectus, being Goldman Sachs JBWere Principal Investment Area, Quadrant Private Equity and the shareholder representing each member of Management
Milford Shares	Shares in Milford currently held by Milford Shareholders
New Financing Facilities	The new debt facilities to be put in place immediately following Listing. Refer to Section 7.15

Term	Definition
NPAT	Net profit after tax
NZDT	New Zealand Daylight Time
NZX	NZX Limited or the New Zealand Stock Market, as the context requires
NZ IFRS	New Zealand equivalent to International Financial Reporting SAtandards
Offer	The offer under this Prospectus of Shares for issue by the Company
Offer Management Agreement	The offer management agreement entered into between Kathmandu, Milford and the Joint Lead Managers on or about the date of this Prospectus
Offer Shares	Some or all of the Shares offered by Kathmandu under the Offer, as described in this Prospectus
Prospectus	This document (including the electronic form of this Prospectus) and any supplementary or replacement Prospectus in relation to this document
Quadrant Private Equity	Quadrant Private Equity Services Pty Limited, as trustee for Quadrant Private Equity No.1A, and Quadrant Private Equity Management Pty Limited as trustee for Quadrant Private Equity No.1B, collectively beneficial holders on the date of the Prospectus of in aggregate 48.6% of Milford
Retail Investor	An investor who is not an Institutional Investor
Retail Offer	The portion of the Offer comprised of the Broker Firm Offer and the Kathmandu Employee Offer
Sale Deed	The agreement between the Milford Shareholders and Kathmandu setting out the terms upon which the Milford Shareholders agree to sell all of their Milford Shares to Kathmandu and Kathmandu agrees to pay the Milford Shareholders consideration for their shares in cash, or a combination of cash and Shares in Kathmandu as further described in Section 10.5.1
Share	A fully paid ordinary share in the capital of Kathmandu
Shareholder	A holder of Shares
Share Registry	Link Market Services Limited (ABN 54 083 214 537) or any other share registry that Kathmandu appoints to maintain the register of Shares
Takeovers Code	The New Zealand Takeovers Code Approval Order 2000 (SR 2000/210), as amended from time to time
UK	United Kingdom

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CORPORATE DIRECTORY

KATHMANDU'S REGISTERED OFFICES

Kathmandu New Zealand (Head Office)

11 Mary Muller Drive
Heathcote
PO Box 1234
Christchurch 8140

Kathmandu Australia

55-65 Sky Road
Melbourne Airport Business Park
Victoria 3045
PO Box 200
Tullamarine VIC 3043

Kathmandu UK

Unit 9, Oxonian Park
Langford Locks
Kidlington
Oxfordshire OX5 1FP

JOINT LEAD MANAGERS

Goldman Sachs JBWere Pty Limited

Level 42, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Macquarie Capital Advisers Limited

Level 9
1 Martin Place
Sydney NSW 2000

ORGANISING PARTICIPANTS

Goldman Sachs JBWere Limited

Level 38, Vero Centre
48 Shortland Street
Auckland NZ 1001

Macquarie Securities (NZ) Limited

Level 17, Lumley Centre
88 Shortland Street
Auckland 1140

NEW ZEALAND CO-MANAGER

First NZ Capital Securities Limited

PO Box 5333
Wellesley Street
Auckland 1141

AUSTRALIAN CO-MANAGER

Commonwealth Securities Limited

Level 18
363 George Street
Sydney NSW 2000

LEGAL ADVISERS

Clayton Utz

Levels 19-35
1 O'Connell Street
Sydney NSW 2000

Chapman Tripp

23 Albert Street
Auckland 1140

INVESTIGATING ACCOUNTANT

PricewaterhouseCoopers Securities Ltd

Darling Park Tower 2
201 Sussex Street
Sydney NSW 2000

AUDITOR

PricewaterhouseCoopers

119 Armagh Street
Christchurch 8011

SHARE REGISTRY

Link Market Services Limited

Level 12
680 George Street
Sydney NSW 2000

KATHMANDU OFFER INFORMATION LINE

Within Australia: 1800 190 082

Within New Zealand: 0800 767 556

Hours of operation: 8:30am to 5:30pm AEDT/NZDT Monday to Friday

KATHMANDU OFFER WEBSITE

www.kathmanduholdings.com

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KATHMANDU