

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that the third Annual General Meeting of Kathmandu Holdings Limited ("**the Company**") will be held at the Sofitel Hotel, 61-101 Phillip Street, Sydney, Australia on Friday, 16 November 2012 at 11:00am (Sydney time).



Ordinary Business

Financial Statements

1. To receive and consider the Financial Report of the Company for the year ended 31 July 2012 together with the Directors' and Auditor's reports.

Election of Directors

2.a. Mr. James Strong

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That Mr. James Strong, who retires by rotation in accordance with Article 4.4 of the Company's Constitution and, being eligible, offers himself for re-election, be re-elected as a Director of the Company."

2.b. Mr. John Harvey

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That Mr. John Harvey who retires by rotation in accordance with Article 4.4 of the Company's Constitution and, being eligible, offers himself for re-election, be re-elected as a Director of the Company."

Auditors' Remuneration

3. To consider and, if thought fit, to pass the following resolution as an ordinary resolution:
"To record that PricewaterhouseCoopers continue in office as the Company's auditors and to authorise the Directors to fix the remuneration of PricewaterhouseCoopers for the ensuing year."

Grant of performance rights to Peter Halkett under the Kathmandu Holdings Limited Long Term Incentive Plan

4. To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:
"That for the purposes of ASX Listing Rule 10.14, and for all other purposes, approval is hereby given for the grant to Peter Halkett, Managing Director and Chief Executive Officer, of a number of performance rights (including both the Short Term Incentive Portion and the Long Term Incentive Portion) up to a value of NZ\$404,250, calculated in accordance with the formula and terms described in the Explanatory Statement which forms part of this Notice of Meeting."

Voting exclusion statement – Item 4

In accordance with ASX Listing Rule 14.11.1, the Company will disregard any votes cast on Item 4 by any Executive Director of the Company or their associates.

However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Grant of performance rights to Mark Todd under the Kathmandu Holdings Limited Long Term Incentive Plan

5. To consider and, if thought fit, pass the following resolution as an ordinary resolution of the Company:
"That, for the purposes of ASX Listing Rule 10.14, and for all other purposes, approval is hereby given for the grant to Mark Todd, Finance Director, Chief Financial Officer and Company Secretary, of a number of performance rights (including both the Short Term Incentive Portion and the Long Term Incentive Portion) up to a value of NZ\$238,875, calculated in accordance with the formula and terms described in the Explanatory Statement which forms part of this Notice of Meeting."

Voting exclusion statement – Item 5

In accordance with ASX Listing Rule 14.11.1, the Company will disregard any votes cast on Item 5 by any Executive Director of the Company or their associates.

However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Ordinary resolution

An ordinary resolution is a resolution passed by a simple majority (i.e. over 50% of the votes of shareholders of the Company entitled to vote and voting).

Addresses by Chairman and Chief Executive Officer

Please note that for shareholders who are unable to attend the meeting, transcripts of the Chairman's and Chief Executive Officer's addresses to the meeting (and any accompanying slide presentations) will be posted on the Company's website at www.kathmanduholdings.com and released to NZX's and ASX's market announcement platform at the same time or before they are delivered to the meeting.

Approvals

This notice of meeting has been approved by ASX and NZX.

By Order of the BoardA handwritten signature in black ink, appearing to read 'Mark Todd', written in a cursive style.**Mark Todd**

Company Secretary

10 October 2012

EXPLANATORY STATEMENT

Introduction

The purpose of this Explanatory Statement is to provide shareholders with further information on the items of business to be considered at the Annual General Meeting of Kathmandu Holdings Limited ("**the Company**") to be held on Friday, 16 November 2012.

Item 1

Receive and consider the Financial and other Reports

It is intended to provide an opportunity for shareholders to raise questions on the reports and on the performance and management of the Company generally.

Item 2

Election of Directors

Article 4.4 of Kathmandu Holdings Limited' constitution and NZSX Listing Rule 3.3.11 require one-third of the directors (or, if their number is not a multiple of three, then the number nearest to one-third) to retire from office at the annual meeting each year (with the retiring directors being those who have been longest in office since they were last elected or deemed elected).

In addition, a single Executive Director (the Chief Executive Officer) is exempt from these rotation requirements.

a. Mr. James Strong

Mr. Strong is currently Chairman of Woolworths Limited, the Australia Council for the Arts and the Organising Committee for the ICC Cricket World Cup 2015. He is a Director of Qantas Airways Limited, a member of the Australia Grand Prix Corporation, Nomura Australia Advisory Board and Australian Institute of Directors.

Previously, Mr. Strong was the Chairman of Insurance Australia Group Limited, 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.

The Directors, with James Strong abstaining, recommend that shareholders vote in favour of this resolution.

b. Mr. John Harvey

Mr. John Harvey is a professional Director with a background in accounting and professional services. Mr Harvey has over 35 years professional experience, including 23 years as a partner of PricewaterhouseCoopers where he held a number of leadership and governance roles.

Mr Harvey has extensive experience in financial reporting, governance, information systems and processes, business evaluation, acquisition and merger takeover reviews.

Mr. Harvey is currently a non-Executive Director of DNZ Property Fund, Heartland Building Society, Port Otago, APN News & Media, Balance Agri-Nutrients and New Zealand Opera.

The Directors, with John Harvey abstaining, recommend that shareholders vote in favour of this resolution.

Item 3

Auditors' Remuneration

PricewaterhouseCoopers is the existing auditor of the Company and has indicated its willingness to continue in office. Pursuant to section 200(1) of the Companies Act 1993 of New Zealand, PricewaterhouseCoopers is automatically reappointed at the annual meeting as auditor of the Company. The proposed resolution is to authorise the Directors to fix the auditors' remuneration for the following year for the purposes of section 197 of the Companies Act 1993.

Items 4 & 5

Grant of performance rights to Peter Halkett and Mark Todd under the Kathmandu Holdings Limited Long Term Incentive Plan

Grant of Performance Rights

Items 4 and 5 seek shareholder approval to issue further performance rights to two Executive Directors, Peter Halkett and Mark Todd under the shareholder approved Kathmandu Holdings Limited Long Term Incentive Plan ("**the Plan**"). Under the Plan the Board may grant performance rights to any employee of the Company (including Directors who are employees) or any related body corporate of the Company whom the Board decides in its discretion is eligible to be invited to receive a grant of performance rights.

The Company seeks shareholder approval to grant performance rights under the Plan because under ASX Listing Rule 10.14 the Company must seek shareholder approval to grant equity securities in the Company to the two Executive Directors, Peter Halkett and Mark Todd. Subject to that shareholder approval, Peter Halkett and Mark Todd will be granted further performance rights which, subject to the achievement of certain performance conditions described below, may vest and convert to ordinary shares on a one-for-one basis.

The Board has decided to grant the further performance rights to Peter Halkett and Mark Todd, for the following reasons:

- the grant of performance rights is in accordance with acceptable market practice;
- the grant of performance rights has a minimal dilutionary effect on the issued share capital of the Company;
- the grant of performance rights, as the primary component of their incentive based remuneration, will reward these Executives for their performance; and
- performance rights which have been granted under transparent and robust performance conditions, containing stretch elements, will when they vest create recognisable value to these Executives, which ensures alignment with value creation to Shareholders.

Vesting of the performance rights will only occur when the Performance Conditions specified below are satisfied within the relevant Performance Period. Financial Performance Conditions are determined inclusive of the cost of the performance rights granted. Each performance right, when vested, will automatically convert to one fully paid ordinary share in the Company.

On vesting of the performance rights, the Company may acquire fully paid ordinary shares on market and transfer, or issue new shares. Any shares issued or transferred as a result of the vesting of performance rights issued under the Plan will rank equally with existing fully paid ordinary shares in the Company in all respects, including voting rights and entitlements to participate in dividends and in future rights and bonus issues.

Details about the grant of Performance Rights to Executive Directors under the Kathmandu Holdings Limited Long Term Incentive Plan

Peter Halkett, Managing Director and Chief Executive Officer (Item 4)

Subject to shareholder approval, the Board wishes to grant to Peter Halkett performance rights to the value of NZ\$404,250 representing 49% of Mr. Halkett's base salary of NZ\$825,000.

The actual number of performance rights to be granted to Peter Halkett for nil cash consideration under the Plan will be determined by dividing the performance rights value of NZ\$404,250 by the average volume weighted price for the Company's ordinary shares as traded on the 5 business days prior to the offer being made to Peter Halkett.

The performance rights will be granted to Peter Halkett on or prior to 1 December 2012. The performance rights will only vest if the Performance Conditions are satisfied during the applicable Performance Periods, both as specified below. Where relevant Performance Conditions are met a pre-determined proportion of the performance rights will, on the relevant Vesting Dates, convert to ordinary shares in the capital of the Company on a one-for-one basis. Any shares allotted to Mr. Halkett may be acquired on market or issued by the Company.

No consideration will be payable by Peter Halkett in respect of the grant of the performance rights or the transfer or issue of shares upon vesting of the performance rights.

Mark Todd, Finance Director, Chief Financial Officer and Company Secretary (Item 5)

Subject to shareholder approval, the Board wishes to grant to Mark Todd performance rights to the value of NZ\$238,875 representing 49% of Mr. Todd's base salary of NZ\$487,500.

The actual number of performance rights to be granted to Mark Todd for nil cash consideration under the Plan will be determined by dividing the performance rights value of NZ\$238,875 by the average volume weighted price for the Company's ordinary shares as traded on the NZX on the 5 business days prior to the offer being made to Mark Todd.

The performance rights will be granted to Mark Todd on or prior to 1 December 2012. The performance rights will only vest if the Performance Conditions are satisfied during the applicable Performance Periods, both as specified below. Where relevant Performance Conditions are met a pre-determined proportion of the performance rights will, on the relevant Vesting Dates, convert to ordinary shares in the capital of the Company on a one-for-one basis. Any shares allotted to Mr. Todd may be acquired on market or issued by the Company.

No consideration will be payable by Mark Todd in respect of the

grant of the performance rights or the transfer or issue of shares upon vesting of the performance rights.

Allocation of Performance Rights

The proposed allocation of performance rights is in the same proportions for both Mr. Halkett and Mr. Todd.

The allocation of performance rights is split as follows:

- (1) 28.57% of the total value of the proposed performance rights to be granted (being 14% of base salary) will vest dependent upon achievement of Performance Conditions relating to the Company's earnings performance for the year ended 31 July 2013 (the "**Short Term Incentive Portion**") as well as a Performance Condition relating to on-going employment with the Company.
- (2) 71.43% of the total value of the proposed performance rights to be granted (being 35% of base salary) will vest dependent upon achievement of Performance Conditions relating to the Company's earnings performance and relative total shareholder return over a 2, 3, and 4 year period (the "**Long Term Incentive Portion**").

Short Term Incentive Portion

Each year, a Short Term Incentive, made up of a cash and an equity component, is determined by the Board for eligible employees under the Plan dependent upon the achievement of financial Performance Conditions related to the Company's earnings in the applicable year. For the year ended 31 July 2013, the maximum available Short Term Incentive is 35% of base salary, and that available incentive is split 60% cash and 40% equity. The percentage of base salary and the split between cash and equity is unchanged from the previous year. The equity is in the form of nil cost performance rights. The proportion of performance rights to be granted for the Short Term Incentive Portion that may vest is determined by measurement of the Company's actual audited earnings before interest, tax, depreciation and amortisation (EBITDA) for the year ended 31 July 2013 against EBITDA targets that have been set for that year by the Board.

The vesting date for any of the performance rights that will vest as a result of the Company's financial over performance in the year ended 31 July 2013 will be 31 July 2015. It is a Performance Condition that Mr. Halkett or Mr. Todd remain employed by the Company on that date, and if this Performance Condition is met the performance rights granted will then vest and convert into ordinary shares in the Company on a 1 for 1 basis.

Long Term Incentive Portion

Amounts and Vesting Dates

The performance rights for the Long Term Incentive Portion will be divided into three equal tranches. Subject to the Performance Conditions being met over the applicable period of time as prescribed by the Board ("**Performance Period**"), these performance rights will vest as follows:

- the first tranche of performance rights will vest on 1 December 2014 ("**First Tranche**");
- the second tranche of performance rights will vest on 1 December 2015 ("**Second Tranche**"); and
- the third tranche of performance rights will vest on 1 December 2016 ("**Third Tranche**").

Performance Conditions

The Performance Conditions for the vesting of performance rights to Peter Halkett and Mark Todd are comprised of a dual test of relative Total Shareholder Return ("**TSR**") and Earnings Per Share ("**EPS Growth**") ("**Performance Conditions**").

The Board considered it appropriate to have a dual test since:

- a TSR component provides a challenging test (where reward is only delivered for 'out-performing' a target that is based on the Company's relative performance) against retail industry peers, and also provides transparency for external stakeholders; and
- an EPS component which rewards achievement against a target is within management's influence, thereby focusing executives on one of the Company's key business drivers.

The Board believes that the dual tests, if achieved, will demonstrably aid the creation of shareholder value. Each Performance Condition is weighted evenly.

TSR Condition

For each Tranche, vesting of 50% of the performance rights will depend upon the Company's relative TSR performance determined by the Board on the basis of the Company's relative TSR ranking calculated over the following Performance Periods:

- for the First Tranche, the 24 months to 1 December 2014;
- for the Second Tranche, the 36 months to 1 December 2015; and
- for the Third Tranche, the 48 months to 1 December 2016;

in each case, compared with the TSR performance of the entities in a comparator group calculated over the same period.

Comparator Group

The Company's TSR will be compared to the TSRs over the same period of a comparator group of listed entities that are in the retail industry, listed on the ASX or NZX and with market capitalisation indicatively in a range between 300% & 45% of the Company's market capitalisation. The Board has a general discretion to exclude entities from the comparator group for the comparison of the Company's TSR in any Performance Period (for example, in circumstances where an entity is subject to a takeover event during the year).

Vesting Measures

For each Tranche:

- No performance rights subject to the TSR condition (being 50% of the maximum number of performance rights for which the relevant Executive may be eligible for that tranche) will vest unless the Company's TSR over the Performance

Period is greater than the TSR of the entity which is at the 50th percentile of the Comparator Group ranked by their TSR performance over the same period.

- If the Company's TSR is greater than the TSR of the entity which is at the 50th percentile of the Comparator Group ranked by their TSR performance over the same period, 50% of the performance rights subject to the TSR condition will vest.
- All of the performance rights subject to the TSR condition will vest if the Company's TSR over the applicable Performance Period is equal to or greater than the TSR of the entity which is at the 75th percentile of the Comparator Group of entities ranked by their TSR performance.
- The proportion of the performance rights subject to the TSR condition that will vest between the 50th and 75th percentiles

Percentile ranking of the Company at the end of a Performance Period	Percentage of performance rights in a particular Tranche subject to the TSR condition that will vest
At or below 50th percentile	0
Above 50th percentile	50%
51st to 74th percentile	50% plus 2% for each 1 percentile increase above the 50th percentile
75th percentile or above	100%

will increase 2% for each whole 1 percentile increase in the Company's relative TSR performance.

The vesting scale for the performance rights subject to the TSR condition is summarised in the following table:

EPS Growth Condition

For each Tranche, vesting of 50% of the performance rights will be dependent upon the Company's EPS Growth Rate over the relevant Performance Period.

The EPS Growth Rate is the Compound Average Annual Growth rate in the Company's basic earnings per share (**EPS**) (expressed as a percentage) over the Performance Period using the 2011/2012 financial year EPS as the base. The 2011/2012 financial year EPS has been determined as 17.4 cents per share. This has been calculated as follows:

- Company earnings, net profit after tax, was \$34.852 million;
- Weighted average shares on issue of 200 million;
- Resulting earnings per share 17.4 cents per share

Performance Periods

The applicable Performance Periods are:

- 1 August 2012 to 31 July 2014 for the First Tranche;
- 1 August 2012 to 31 July 2015 for the Second Tranche; and
- 1 August 2012 to 31 July 2016 for the Third Tranche.

The EPS Growth Rate over each of the Performance Periods is calculated using the following formula:

[EPS Growth Rate = [EPS pp/EPS base]^{1/x} - 1] where:

EPS pp = EPS over the Performance Period

EPS base = EPS in the 2011/2012 financial year

x = no. of years in the Performance Period (i.e. 2 for the First Tranche, 3 for the Second Tranche and 4 for the Third Tranche)

The calculation of EPS over the Performance Period:

- Will include in the earnings calculation all costs of performance rights that are expensed during the Performance Period; and
- Will ignore any performance rights for which a share has not been issued (i.e. unvested performance rights).

For each Tranche:

- No performance rights subject to EPS Growth Condition will vest unless the EPS Growth Rate over the Performance Period is equal to or greater than 10%;
- 100% of the performance rights subject to the EPS Growth Condition will vest if the EPS Growth Rate over the Performance Period is equal to or greater than 15%; and
- The proportion of the performance rights subject to the EPS Growth Condition that will vest will increase on a straight-line basis for an EPS Growth Rate of between 10% and 15% so that the number of EPS performance rights that vest increases by an additional 10% for each additional 1% increase in the Company's EPS Growth Rate.

Compound Average Annual Growth in Company's EPS over the relevant Performance Period	Percentage of performance rights in a particular Tranche subject to the EPS Growth Condition that will vest
Less than 10%	0
10%	50%
11%	60%
12%	70%
13%	80%
14%	90%
Equal to or greater than 15%	100%

The vesting scale for the proportion of the performance rights subject to the EPS Growth Condition is summarised in the following table:

ASX Listing Rule Requirements

Pursuant to the requirements of ASX Listing Rule 10.15A, the following additional information is provided with regard to Items 4 and 5 respectively:

- No consideration was payable for any of the performance rights;
- Peter Halkett and Mark Todd were granted 235,145 and 138,949 performance rights respectively, on 30 November 2011 under the Plan. These rights granted at that time related to the short term incentive portion have now lapsed;
- The Plan provides that any Director of the Company who

holds salaried employment is eligible to participate in awards under the Plan. The only Directors who are eligible to participate in the Plan are the Executive Directors, Peter Halkett and Mark Todd;

- There is no loan attaching to the offer under the Plan;
- Details of any securities issued under the Plan will be published in each annual report of the Company relating to a period in which securities have been issued, and that approval for the issue of securities was obtained under ASX Listing Rule 10.14;
- Any additional Directors who become entitled to participate in the Plan after the shareholders have approved it who are not named in this notice of meeting will not participate until approval is obtained under ASX Listing Rule 10.14; and
- Performance rights will be granted by 1 December 2012, and all Shares to be issued upon vesting of performance rights, will be granted and issued no later than 20 December 2016.

The Directors (with Peter Halkett and Mark Todd abstaining) unanimously recommend that shareholders vote in favour of the resolutions for items 4 and 5.

ADMISSION TO MEETING

The Company has determined that for the purpose of voting at the meeting, shares will be taken to be held by those persons recorded on the Company's register as at 5.00pm (New Zealand time) on Wednesday, 14 November 2012.

Shareholders who will be attending the meeting, and who will not be appointing a proxy, are requested to bring the proxy form to the meeting to help speed admission.

Shareholders who do not plan to attend the meeting are encouraged to complete and return the proxy form for each of their holdings of Kathmandu Holdings Limited shares or to complete a postal vote.

QUESTIONS BY SHAREHOLDERS

In addition to asking questions at the meeting, written questions to the Board, Senior Management and the Auditors of Kathmandu Holdings Limited, may be submitted no later than 5:00pm (New Zealand time) on Wednesday, 7 November 2012 to:

The Chairman
Kathmandu Holdings Limited
C/- Company Secretary
Kathmandu Holdings Limited
11 Mary Muller Drive
Heathcote
Christchurch
New Zealand

Facsimile: +64 3 373 6116

Email: Company.secretary@kathmandu.co.nz

Copies of written questions and answers will be available at the meeting and a full transcript of the meeting will be posted on Kathmandu Holdings Limited's website within 24 hours of the meeting.

PROXIES & POSTAL VOTES

1. If you are unable to attend and vote at the meeting and wish to appoint a person who will be attending as your proxy, please complete the enclosed proxy form. [Proxy forms may also be completed online at www.kathmanduholdings.com.]
2. The Chairman of the meeting offers themselves as a proxy to shareholders.
3. Alternatively, you may submit a postal vote by ticking the relevant box on the proxy form and providing your voting directions for each of the resolutions. If you submit a postal vote, your votes will be counted on a vote by a show of hands at the meeting and/or if a poll is called at the meeting. If you submit a postal vote you do not need to appoint a proxy.
4. A member entitled to attend and vote at this meeting is entitled to appoint not more than two proxies (who need not be members of the Company) to attend and vote for the member at the meeting.
5. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes each proxy may exercise, each proxy may exercise half of the votes. A single proxy exercises all voting rights.
6. The form of proxy must be signed by the member or the

member's attorney duly authorised in writing or if the member is a corporation under its corporate seal or by its duly authorised attorney or representative. If an attorney is to attend the meeting please submit the relevant certified power of attorney for noting and return. If a representative of the corporation or body corporate is to attend the meeting the appropriate Letter of Representation should be produced prior to admission.

7. In the case of joint holders the proxy form must be signed by all shareholders.
8. Proxy forms will only be valid and accepted if they are signed and forwarded to the Company's share registry, Link Market Services, at the address or facsimile number quoted below so as to be received by 11:00am (Sydney time) or 1:00pm (New Zealand time) on Wednesday, 14 November 2012, being at least 48 hours before the meeting.
9. The Company's share register is maintained at the following address:

In Australia:

Link Market Services Limited
Level 12, 680 George Street
Sydney, NSW 2000

Postal Address: Locked Bag A14
Sydney South NSW 1235

Telephone: 1300 554 474
+61 2 8280 7111

Facsimile Number: +61 2 9287 0309

In New Zealand:

Link Market Services Limited
Level 16, Brookfields House,
19 Victoria Street West, Auckland 1010
New Zealand

Postal Address: PO Box 91976
Auckland 1142
New Zealand

Telephone: +64 9 375 5998

Facsimile Number: +64 9 375 5990



KATHMANDU HOLDINGS LIMITED