

KATHMANDU HOLDINGS LIMITED

INTERIM REPORT 2020

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2020

DIRECTORS' REPORT

The Directors of Kathmandu Holdings Limited present the Interim Report for the Company and its controlled entities for the half year ended 31 January 2020.

Review of Operations

The consolidated net profit after tax for the period was NZ\$8.1 million (2019: NZ\$14.0 million) including acquisition costs of NZ\$10.1m. The consolidated net profit after tax excluding acquisition costs is NZ\$18.2m. Sales for the period were NZ\$363.7 million (2019: NZ\$232.0 million).

A review of the operations of the Company and its controlled entities is set out in the accompanying Company's media release of 1 April 2020. The key line items in the half year results were:

- Sales up 56.7% to NZ\$363.7m,
- EBIT up NZ\$2.9m to NZ\$23.8m,
- NPAT down NZ\$5.8m to NZ\$8.1m.

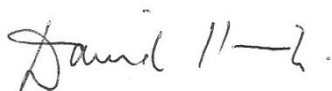
Seasonality

Due to the seasonal nature of the Company and its controlled entities activities, the activities in the second half of the year historically provide a larger portion of the sales and net profit for the full year.

Going Concern and the Impact of COVID-19

The Group has reviewed the impact on the business from the rapidly evolving COVID-19 situation. Providing accurate forecasts in this rapidly evolving environment is challenging however the Directors are of the view that there is likely to be a material adverse impact to earnings in the next 12 months. Refer to Note 16 of the Financial Statements for further disclosure about the impact of COVID-19 on the going concern assumption.

Signed in accordance with a resolution of the directors:



David Kirk
Director



Xavier Simonet
Director

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six Months Ended 31 January 2020	Unaudited Six Months Ended 31 January 2019	Audited Year Ended 31 July 2019
		NZ\$'000	NZ\$'000	NZ\$'000
Sales revenue	4	363,654	232,024	545,618
Cost of sales		(144,754)	(90,160)	(213,125)
Gross profit		218,900	141,864	332,493
Other income		628	1,115	1,130
Selling expenses	5	(87,168)	(77,968)	(160,581)
Administration and general expenses	5	(64,025)	(36,332)	(73,477)
		(150,565)	(113,185)	(232,928)
Earnings before interest, tax, depreciation and amortisation		68,335	28,679	99,565
Depreciation and amortisation	5	(44,575)	(7,755)	(15,272)
Earnings before interest and tax		23,760	20,924	84,293
Finance income		29	54	37
Finance expenses		(9,531)	(1,506)	(2,952)
Finance costs - net	5	(9,502)	(1,452)	(2,915)
Profit before income tax		14,258	19,472	81,378
Income tax expense		(6,121)	(5,518)	(23,745)
Profit after income tax		8,137	13,954	57,633
Profit for the period attributable to:				
Shareholders of the company		7,471	13,954	57,633
Non-controlling interest		666	-	-
Other comprehensive income/(loss) that may be recycled through profit and loss:				
Movement in cash flow hedge reserve		(407)	(1,524)	620
Movement in foreign currency translation reserve		(2,870)	(6,583)	(3,297)
Other comprehensive income/(loss) for the period, net of tax		(3,277)	(8,107)	(2,677)
Total comprehensive income for the period		4,860	5,847	54,956
Total comprehensive income for the period attributable to:				
Owners of the company		4,335	5,847	54,956
Non-controlling interest		525	-	-
Basic earnings per share (restated)	3	2.8 cps	6.0 cps	24.6 cps
Diluted earnings per share (restated)	3	2.8 cps	5.9 cps	24.4 cps
Weighted average basic ordinary shares outstanding ('000) (restated)	3	269,324	234,399	234,561
Weighted average diluted ordinary shares outstanding ('000) (restated)	3	270,433	236,231	236,526

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital NZ\$'000	Cash Flow Hedge Reserve NZ\$'000	Foreign Currency Translation Reserve NZ\$'000	Share Based Payments Reserve NZ\$'000	Retained Earnings NZ\$'000	Non- controlling Interest NZ\$'000	Total Equity NZ\$'000
Balance as at 31 July 2018	249,882	3,498	(8,975)	2,760	173,356	-	420,521
Profit after tax	-	-	-	-	57,633	-	57,633
Other comprehensive income	-	620	(3,297)	-	-	-	(2,677)
Dividends paid	-	-	-	-	(33,883)	-	(33,883)
Issue of share capital	1,231	-	-	(1,231)	-	-	-
Share based payment expense	-	-	-	721	-	-	721
Lapsed share options	-	-	-	(14)	14	-	-
Deferred tax on share-based payment transactions	-	-	-	(253)	-	-	(253)
Balance as at 31 July 2019	251,113	4,118	(12,272)	1,983	197,120	-	442,062
Profit after tax	-	-	-	-	7,471	666	8,137
Other comprehensive income	-	(407)	(2,729)	-	-	(141)	(3,277)
Dividends paid	-	-	-	-	(27,209)	-	(27,209)
Issue of share capital	174,649	-	-	(1,613)	-	-	173,036
Share based payment expense	-	-	-	116	-	-	116
Deferred tax on share-based payment transactions	-	-	-	83	-	-	83
Non-controlling interest on acquisition	-	-	-	-	-	3,312	3,312
Transition to NZ IFRS 16	-	-	-	-	(16,308)	-	(16,308)
Balance as at 31 January 2020	425,762	3,711	(15,001)	569	161,074	3,837	579,952

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CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 31 January 2020	Unaudited As at 31 January 2019	Audited As at 31 July 2019
		NZ\$'000	NZ\$'000	NZ\$'000
ASSETS				
Current assets				
Cash and cash equivalents		40,259	4,650	6,230
Trade and other receivables		81,121	11,373	14,206
Inventories		254,560	130,050	122,773
Derivative financial instruments	13	5,677	3,366	4,964
Current tax asset		18,897	805	-
Other financial assets		-	22,210	-
Total current assets		400,514	172,454	148,173
Non-current assets				
Property, plant and equipment	12	93,125	60,941	60,319
Intangible assets		634,834	384,624	386,061
Right-of-use assets	15	309,733	-	-
Total non-current assets		1,037,692	445,565	446,380
Total assets		1,438,206	618,019	594,553
LIABILITIES				
Current liabilities				
Trade and other payables		131,037	60,747	74,560
Derivative financial instruments	13	186	1,348	113
Current tax liabilities		12,828	-	6,458
Other financial liabilities		-	21,739	-
Lease liability	15	78,041	-	-
Total current liabilities		222,092	83,834	81,131
Non-current liabilities				
Derivative financial instruments	13	13	45	9
Non-current trade and other payables		2,480	-	-
Interest bearing liabilities	8	313,425	83,850	25,500
Deferred tax		53,444	48,667	45,851
Lease liability	15	266,800	-	-
Total non-current liabilities		636,162	132,562	71,360
Total liabilities		858,254	216,396	152,491
Net assets		579,952	401,623	442,062
EQUITY				
Contributed equity - ordinary shares		425,762	251,113	251,113
Reserves		(10,721)	(11,825)	(6,171)
Retained earnings		161,074	162,335	197,120
Non-controlling interest		3,837	-	-
Total equity		579,952	401,623	442,062

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited Six Months Ended 31 January 2020	Unaudited Six Months Ended 31 January 2019	Audited Year Ended 31 July 2019
		NZ\$'000	NZ\$'000	NZ\$'000
Cash flows from operating activities				
Cash was provided from:				
Receipts from customers		378,631	235,097	546,499
Income tax received		-	-	207
Interest received		29	54	621
		378,660	235,151	547,327
Cash was applied to:				
Payments to suppliers and employees		300,475	234,566	455,743
Income tax paid		15,914	15,338	26,673
Interest paid		7,035	1,404	3,237
		323,424	251,308	485,653
Net cash inflow/(outflow) from operating activities		55,236	(16,157)	61,674
Cash flows from investing activities				
Cash was provided from:				
Proceeds from sale of property, plant and equipment		-	1	1
Proceeds from investment in other financial assets		-	-	22,321
			1	22,322
Cash was applied to:				
Purchase of property, plant and equipment		8,337	5,171	11,345
Purchase of intangibles		2,228	1,813	4,351
Acquisition of subsidiaries		378,794	84	22,321
		389,359	7,068	38,017
Net cash (outflow) from investing activities		(389,359)	(7,067)	(15,695)
Cash flows from financing activities				
Cash was provided from:				
Proceeds of loan advances		451,338	70,214	92,606
Proceeds from share issue		140,081	-	-
		591,419	70,214	92,606
Cash was applied to:				
Dividends		27,209	24,836	33,883
Repayment of loan advances		160,516	25,624	106,606
Repayment of lease liabilities		34,331	-	-
		222,056	50,460	140,489
Net cash inflow/(outflow) from financing activities		369,363	19,754	(47,883)
Net increase/(decrease) in cash held		35,240	(3,470)	(1,904)
Opening cash and cash equivalents		6,230	8,146	8,146
Effect of foreign exchange rates		(1,211)	(26)	(12)
Closing cash and cash equivalents		40,259	4,650	6,230

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RECONCILIATION OF NET PROFIT AFTER TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES

	Unaudited Six Months Ended 31 January 2020	Unaudited Six Months Ended 31 January 2019	Audited Year Ended 31 July 2019
	NZ\$'000	NZ\$'000	NZ\$'000
Profit after income tax	8,137	13,954	57,633
<i>Movement in working capital:</i>			
(Increase) / decrease in trade & other receivables	17,942	1,660	(379)
(Increase) / decrease in inventories	(11,649)	(20,516)	(13,042)
Increase / (decrease) in trade and other payables	(7,782)	(10,290)	3,662
Increase / (decrease) in tax liability	(8,368)	(10,639)	(3,260)
	(9,857)	(39,785)	(13,019)
<i>Add non cash items:</i>			
Depreciation of property, plant and equipment	8,609	5,851	11,920
Amortisation of intangibles	2,904	1,904	3,352
Depreciation of right-of-use assets	33,061	-	-
Foreign currency translation of working capital balances	13,284	181	(286)
Increase / (decrease) in deferred taxation	(1,425)	818	539
Employee share based remuneration	116	576	721
Loss on disposal of property, plant and equipment	407	344	814
	56,956	9,674	17,060
Cash inflow/(outflow) from operating activities	55,236	(16,157)	61,674

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1 GENERAL INFORMATION

Kathmandu Holdings Limited (the Company) and its subsidiaries (together the Group) is a designer, marketer, retailer and wholesaler of apparel, footwear and equipment for surfing and the outdoors. It operates in New Zealand, Australia, North America, Europe, South East Asia and Brazil.

The Company is a limited liability company incorporated and domiciled in New Zealand. Kathmandu Holdings Limited is a company registered under the Companies Act 1993 and is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The address of its registered office is 223 Tuam Street, Christchurch.

These consolidated interim financial statements have been approved for issue by the Board of Directors on 1 April 2020, and have been reviewed, not audited.

Seasonality

Due to the seasonal nature of the Company and its controlled entities activities, the activities in the second half of the year historically provide a larger portion of the sales and net profit for the full year.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These general purpose financial statements for the six months ended 31 January 2020 have been prepared in accordance with NZ IAS 34, Interim Financial Reporting. In complying with NZ IAS 34, these consolidated interim financial statements also comply with IAS 34.

These consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the audited financial statements of Kathmandu Holdings Limited for the year ended 31 July 2019 which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

The Group is designated as a profit-oriented entity for financial reporting purposes.

3 ACCOUNTING POLICIES

Other than the new accounting standards adopted during the period as set out in Note 18 and the earnings per share and segment restatement noted below, the consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as those used in the audited financial statements of Kathmandu Holdings Limited for the year ended 31 July 2019.

The Group has restated the prior year basic and diluted EPS to reflect the impact of the implied bonus element on shares issued from the institutional entitlement offer on 11 October 2019, retail entitlement offer on 29 October 2019 and share placement on 31 October 2019. Shares were issued at an issue price of NZ\$2.55, representing a 14.4% discount to the NZ\$2.98 volume weighted average price (ex-dividend) of Kathmandu's shares traded on the NZX for the last five trading days prior to 1 October 2019, and a 13.6% discount to the theoretical ex-entitlement price of NZ\$2.95.

The Group has restated the January 2019 segment disclosure in Note 6 to align the comparative disclosure with the new operating segments identified following the acquisition of Rip Curl Group Pty Ltd in October 2019.

4 REVENUE

	Unaudited Six Months Ended 31 January 2020	Unaudited Six Months Ended 31 January 2019	Audited Year Ended 31 July 2019
	NZ\$'000	NZ\$'000	NZ\$'000
Disaggregation of revenue:			
Sale of goods	361,300	232,024	545,618
Licensing revenue	2,354	-	-
	363,654	232,024	545,618

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5 EXPENSES

	Unaudited Six Months Ended 31 January 2020	Unaudited Six Months Ended 31 January 2019	Audited Year Ended 31 July 2019
	NZ\$'000	NZ\$'000	NZ\$'000
Profit before tax includes the following expenses:			
Depreciation of property, plant and equipment	8,609	5,851	11,920
Amortisation	2,904	1,904	3,352
Depreciation of right-of-use assets	33,061	-	-
Employee benefit expense	77,594	46,557	92,035
Rental expense	10,107	34,372	69,187
Acquisition costs	10,073	-	-
Finance costs – net consist of:			
Interest income	(29)	(54)	(37)
Interest expense on term debt	2,197	894	1,877
Interest on lease liabilities	4,462	-	-
Other finance costs	1,803	437	886
Net exchange loss on foreign currency borrowings	1,069	175	189
	9,502	1,452	2,915

6 SEGMENTAL INFORMATION

Following the acquisition of Rip Curl Group Pty Limited in October 2019 the Group has three operating segments.

Outdoor – including the Kathmandu and Oboz brands. This segment designs, markets, retails and wholesales apparel, footwear and equipment for outdoor travel and adventure.

Surf – including the Rip Curl brand. This segment designs, manufactures, wholesales and retails surfing equipment and apparel.

The Corporate segment represents group costs, holding companies and consolidation eliminations and constitutes other business activities that do not fall within outdoor or surf segments.

These operating segments have been determined based on the reports reviewed by the Group Chief Executive Officer and Group Executive Management team.

EBITDA represents earnings before income taxes (a non-GAAP measure), excluding interest income, interest expense, depreciation and amortisation, as reported in the financial statements. EBIT represents EBITDA less depreciation and amortisation.

Costs recharged between Group companies are calculated on an arms-length basis. The default basis of allocation is % of revenue with other bases being used where appropriate.

31 January 2020	Outdoor NZ\$'000	Surf NZ\$'000	Corporate NZ\$'000	Total NZ\$'000
Sales from external customers	228,747	134,907	-	363,654
EBITDA	50,780	28,891	(11,336)	68,335
Depreciation and software amortisation	(31,559)	(12,110)	(906)	(44,575)
EBIT	19,221	16,781	(12,242)	23,760
Income tax expense	3,251	4,922	(2,052)	6,121
Total segment assets	768,602	662,623	6,981	1,438,206
<i>Total assets includes:</i>				
Non-current assets	612,322	425,370	-	1,037,692
Additions to non-current assets	19,596	405,975	-	425,571
Total segment liabilities	290,199	251,719	316,336	858,254

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31 January 2019 – Restated (Note 3)	Outdoor NZ\$'000	Surf NZ\$'000	Corporate NZ\$'000	Total NZ\$'000
Sales from external customers	232,024	-	-	232,024
EBITDA	30,130	-	(1,451)	28,679
Depreciation and software amortisation	(7,355)	-	(400)	(7,755)
EBIT	22,775	-	(1,851)	20,924
Income tax expense	6,123	-	(605)	5,518
Total segment assets	591,856	-	26,163	618,019
<i>Total assets includes:</i>				
Non-current assets	445,565	-	-	445,565
Additions to non-current assets	6,983	-	84	7,067
Total segment liabilities	111,521	-	104,875	216,396

7 RELATED PARTY DISCLOSURES

No amounts owed to related parties have been written off or forgiven during the period.

8 INTEREST BEARING LIABILITIES

	Unaudited As at 31 January 2020	Unaudited As at 31 January 2019	Audited As at 31 July 2019
	NZ\$'000	NZ\$'000	NZ\$'000
Non-current portion	313,425	83,850	25,500

The Group has a multi-option syndicated facility agreement, with a term loan facility of A\$220 million, a revolving cash advances facility of NZ\$58 million and A\$37 million, a trade finance sub-facility of A\$30 million and NZ\$10 million, and instruments sub-facility of A\$20 million. All facilities are repayable in full on 30 November 2022.

Interest is payable based on the BKBM rate (NZD borrowings), the BBSY rate (AUD borrowings), or the applicable short term rate for interest periods less than 30 days, plus a margin of up to 1.05%. The debt is secured by the assets of the guaranteeing group in accordance with the Security Trust Deed dated 25 October 2019.

The covenants entered into by the Group require specified calculations of Group earnings (excluding one-off transaction costs) before interest, tax, depreciation and amortisation (EBITDA) plus lease rental costs to exceed total fixed charges (net interest expense and lease rental costs) at the end of each half during the financial year. Similarly EBITDA (excluding one-off transaction costs) must be no less than a specified proportion of total net debt at the end of each six month interim period. The calculations of these covenants are specified in the bank facility agreement of 25 October 2019 and have been complied with at 31 January 2020.

The current interest rates, prior to hedging, on the term loans ranged from 1.89% - 2.30% (2019: 2.56% - 3.34%).

9 CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 January 2020 (2019: nil).

10 CONTINGENT ASSETS

There are no contingent assets as at 31 January 2020 (2019: nil).

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11 COMMITMENTS

Capital commitments

Capital commitments contracted for at balance date are:

	Unaudited As at 31 January 2020	Unaudited As at 31 January 2019	Audited As at 31 July 2019
	NZ\$'000	NZ\$'000	NZ\$'000
Property, plant and equipment	5,300	3,515	1,877
Intangible assets	1,433	3,089	704

Since 31 January 2020 \$5,262,000 of these commitments have been subsequently paid.

12 PROPERTY PLANT & EQUIPMENT

	Unaudited Ended 31 January 2020	Unaudited Ended 31 January 2019	Audited Ended 31 July 2019
	NZ\$'000	NZ\$'000	NZ\$'000
Additions	8,337	5,170	11,345
Acquisition of businesses	35,228	-	-
Disposals	(407)	(334)	(802)

13 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to manage certain risk exposures. Derivatives are exclusively used for economic hedging purposes, i.e. not as trading or other speculative instruments, however not all derivative financial instruments qualify for hedge accounting.

Risk management is carried out based on policies approved by the Board of Directors. The Group treasury policy provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages this risk by actively managing working capital and ensuring flexibility in funding arrangements. Refer to Note 7 for details of the funding arrangements in place as at 31 January 2020. Also refer to Note 16 for the liquidity risk in relation to the impact of COVID-19.

The consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 July 2019. There have been no changes in the risk management department or in any risk.

(b) Fair value estimation

The only financial instruments held by the Group that are measured at fair value are over-the-counter derivatives. These derivatives have all been determined to be within level 2 (for the purposes of NZ IFRS 13) of the fair value hierarchy as all significant inputs required to ascertain the fair value of these derivatives are observable.

There were no changes in valuation techniques during the period.

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The following methods and assumptions were used to estimate the fair values for each class of financial instrument.

Trade debtors, trade creditors and bank balances

The carrying value of these items is equivalent to their fair value.

Term liabilities

The fair value of the Group's term liabilities is approximately carrying value.

Foreign exchange contracts and interest rate swaps

The forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. The effects of discounting are insignificant for these derivatives.

Guarantees and overdraft facilities

The fair value of these instruments is estimated on the basis that management do not expect settlement at face value to arise. The carrying value and fair value of these instruments is approximately nil. All guarantees are repayable on demand.

The following table presents the group's assets and liabilities that are measured at fair value at 31 January 2020.

	Total NZ\$' 000
Assets	
Derivative financial instruments	5,677
Total assets	5,677
Liabilities	
Derivative financial instruments	199
Total liabilities	199

14 ACQUISITION OF RIP CURL GROUP PTY LTD

On 31 October 2019 Kathmandu Holdings Limited through its wholly-owned subsidiary Barrel Wave Holdings Pty Limited acquired 100% of the equity interests in Rip Curl Group Pty Limited and its controlled entities based out of Australia. The total purchase price was A\$350,000,000. The non-controlling interest on acquisition relates to the interest acquired by the Group in Rip Curl joint ventures in New Zealand, Thailand and Europe.

Rip Curl is a designer, manufacturer and retailer of surfing equipment and apparel, and has a global presence across Australia, New Zealand, North America, Europe, South East Asia and Brazil. The acquisition creates a global outdoor and action sports company anchored by two iconic Australian brands and provides the opportunity for Kathmandu to considerably diversify its geographic footprint, channels to market and seasonality profile.

At the time the interim financial report was authorised for issue, the Group had not yet finalised the purchase price allocation for the acquisition of Rip Curl. Fair values of the assets and liabilities disclosed below are determined provisionally as management is in process of reviewing the details of independent valuations. In segment information (Note 6), management temporarily allocates related assets and liabilities of the acquired business in the "Surf" segment. The Group expects to finalise the purchase price allocation in the next few months.

Goodwill arising on acquisition

On completion of the purchase price allocation, goodwill may be recognised on the acquisition of Rip Curl because of the established workforce and control premiums paid. This is not recognised separately from goodwill as the expected future economic benefits arising cannot be reliably measured and they do not meet the definition of identifiable intangible assets.

Acquisition costs

Acquisition related costs of \$10,073,000 have been excluded from the consideration transferred and are included in administration and general expenses in the statement of comprehensive income and in operating cash flows in the statement of cash flows in the current year.

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Provisional Purchase Price Allocation

	NZD\$'000
Purchase price	377,562
Less estimated net indebtedness adjustment	(81,202)
Plus estimated working capital settlement adjustments	29,165
Total net consideration	325,525
<i>Carrying amounts of identifiable assets acquired and liabilities assumed;</i>	
Current assets	
Cash and cash equivalents	29,142
Trade and other receivables	88,043
Inventories	125,761
Derivative financial instruments	1,052
Current tax asset	8,147
Non-current assets	
Property, plant and equipment	35,228
Right-of-use assets	148,855
Current liabilities	
Trade and other payables	(83,338)
Current tax liability	(3,797)
Current lease liabilities	(34,784)
Non-current liabilities	
Non-current lease liabilities	(114,071)
Interest bearing liabilities	(115,366)
Deferred tax	(15,125)
Less non-controlling interest acquired	(3,312)
Net assets acquired	66,435
Intangible assets to be allocated	259,090
Total net consideration	325,525
Less cash and cash equivalents acquired	(29,142)
Less consideration paid as shares	(32,955)
Plus indebtedness settled on acquisition	115,366
Net cash outflow on acquisition	378,794

15 LEASES

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease Liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The Group's incremental borrowing rate has been determined as the rate of interest that the Group would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives; and
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever;

- the lease term has changed in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right of Use Asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under NZ IAS 37. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. The depreciation starts at the commencement date.

The Group applies NZ IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable Rents

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the selling expenses line in the consolidated statement of comprehensive income.

Group as a lessee

The Group leases several assets including buildings and motor vehicles. Some of the existing lease arrangements have right of renewal options for varying terms. Renewal options are included within the lease liability if they are within 2 years and the Group is reasonably certain to take up the option. The average lease term including rights of renewal is 7 years.

Right-of-use assets and lease liabilities on acquisition

These relate to the acquisition of Rip Curl Group Pty Ltd. The Group is yet to complete the review over the term of the lease and incremental borrowing rates. This will be completed together with the purchase price allocation (note 14).

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Right-of-use assets

The movements in right of use assets for the six months ended 31 January 2020 were as follows:

	NZ\$' 000
Opening net book value 1 August 2019	-
Movements on transition	178,774
Additions	20,297
Right-of-use assets recognised on acquisition (Note 14)	148,855
Depreciation for the period	(33,061)
Exchange differences	(5,132)
Closing net book value 31 January 2020	309,733

Lease amounts recognised in the consolidated statement of comprehensive income:

	Unaudited Six Months Ended 31 January 2020 NZ\$' 000
Depreciation right-of-use asset	33,061
Short-term lease expense	316
Low-value lease expense	309
Variable lease expense	106
Lease outgoings	9,375
Interest expense related to lease liabilities	4,462
Total	47,629

Some of the property leases in which the Group is the lessee contain variable lease payment terms that are linked to sales generated from the leased stores. Variable payment terms are used to link rental payments to store cash flows and reduce fixed cost.

Overall the variable payments constitute up to 0.2% of the Group's entire lease payments. The Group expects this ratio to remain constant in future years. The variable payments depend on sales and consequently on the overall economic development over the next few years. Taking into account the development of sales expected over the next 3 years, variable rent expenses are expected to continue to present a similar proportion of store sales in future years.

The total cash outflow for leases amounts to \$48,175,000.

Lease liabilities

Reconciliation of operating lease commitments to lease liabilities recognised on initial application;

	NZ\$' 000
Operating lease obligation as 31 July 2019	206,476
Recognition exemption for short term leases	(318)
Adjustments as result of different treatment of renewal options	28,257
Lease contracts committed to but not yet available for use	(6,256)
Effect of discounting at the incremental borrowing rate as of 1 August 2019	(12,795)
Lease liabilities as at 1 August 2019	215,364

The weighted average incremental borrowing rate applied to lease liabilities recognised in the consolidated balance sheet at 1 August 2019 is 3.05%.

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The movements in lease liabilities for the six months ended 31 January 2020 were as follows:

	NZ\$' 000
Opening lease liabilities 1 August 2019	-
Movements on transition	215,364
Additions	20,297
Lease liabilities recognised on acquisition (Note 14)	148,855
Interest expense related to lease liabilities	4,462
Repayment of lease liabilities (including interest)	(38,793)
Exchange differences	(5,344)
Closing lease liabilities 31 January 2020	344,841

16 GOING CONCERN AND THE IMPACT OF COVID-19

The Group has reviewed the impact on the business from the rapidly evolving COVID-19 situation. As at the date of this report the Group has sufficient inventory levels for the forthcoming season for all brands. However there has been significant reduction in foot traffic across the Group's store footprint globally with Government enforced shutdowns of store locations. Given the New Zealand Government announced move to Stage 4 all New Zealand stores are now closed until notified by the Government. The Group also closed the Australian retail stores as of 27 March 2019.

Providing accurate forecasts in this rapidly evolving environment is challenging however the Directors are of the view that there will be a material adverse impact to earnings in the next 12 months.

In response to these trading conditions the Group is taking decisive actions, specifically in reducing operating expenses, deferring non-essential capital projects, optimising labour costs, managing inventory levels and has implemented a travel and hiring freeze. The Group has also accessed available government incentives.

Even after taking these steps into consideration the Group is forecasting to breach its bank covenants within the immediate future. The Directors have therefore decided to proceed with a capital raise to provide sufficient liquidity headroom given the uncertainty of future earnings presented with the COVID-19 situation.

In addition, the Group has sought support from its banking syndicate in the form of a waiver of current covenant measurements until the 31 July 2021 measurement point and is renegotiating the terms of its banking facilities. The covenant waiver is dependent on the successful completion of the proposed capital raise by April 2020. The Directors have taken all reasonable steps to ensure the successful completion of the capital raise including signing an underwriting agreement with Craigs Investment Partners Limited, Forsyth Barr Limited, Credit Suisse AG and Jarden Limited as Joint Lead Managers and Joint Bookrunners ("JLMs") of the capital raise, however these steps do not eliminate the inherent equity market risk.

Having taken these actions the Directors have concluded that it is appropriate that these financial statements are prepared on a going concern basis. However, it is acknowledged that there are material uncertainties with respect to the Group successfully renegotiating revised terms on its banking facilities, forecasting revenue in the COVID-19 environment, whether the capital raise can be achieved and whether the amount raised is sufficient to meet the Group's funding requirements for the next 12 months.

The Directors acknowledge that if the Group does not complete its capital raise and successfully renegotiate revised terms on its banking facilities, or is unable to secure alternative funding then the going concern assumption may not be appropriate. These matters therefore indicate that there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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17 EVENTS OCCURRING AFTER BALANCE DATE

As discussed in Note 16, the rapid global rise of COVID-19 has had a significant impact on the global financial markets and asset prices have materially changed. The values of the Group's assets and liabilities may have materially changed since 31 January 2020 including the value of the Group's intangible assets (goodwill and brands) and its financial instruments. An assessment of the underlying values of the Group's assets and liabilities and the extent of any potential change in values can be made once some normality has returned to the market or at the latest in the Group's financial statements for the year ending 31 July 2020.

18 NEW ACCOUNTING STANDARDS

(a) New standards first applied in the period

New Accounting Standard	Effective Date Applicable to the Group	Summary of Changes	Group Impact
NZ IFRS 16 Leases	1 August 2019	Introduces a single lessee accounting model requiring a lessee to recognise assets and liabilities for all leases with a term of more than 12 months where they are not considered low value. A right-of-use asset is recognised representing the right to use the underlying leased asset and a lease liability representing the obligations to make lease payments. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability.	The Group has applied NZ IFRS 16 using a modified retrospective transition method. Comparative figures have not been restated and the cumulative effect of initially applying IFRS 16 has been recognised as an opening retained earnings adjustment. NZ IFRS 16 changes how the Group accounts for leases previously classified as operating leases under NZ IAS 17, which were off-balance-sheet. Applying NZ IFRS 16, for all leases (except as noted below), the Group has: a) recognised lease liabilities and right-of-use assets in the consolidated balance sheet. Lease liabilities have been initially measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 August 2019. Right-of-use assets has been initially measured at carrying amount as if NZ IFRS 16 had always applied since the lease commencement date, using a discount rate based on the incremental borrowing rate at 1 August 2019; b) recognised depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income; and c) separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows. Lease incentives (eg rent free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under NZ IAS 17 they resulted in the recognition of a lease liability, amortised as a reduction of rental expense on a straight-line basis. Under NZ IFRS 16, right-of-use assets are tested for impairment in accordance with NZ IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as office equipment), the Group has opted to recognise a lease expense on a straight-line basis as permitted by NZ

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			IFRS 16. This expense is presented within selling expenses and administration and general expenses within the consolidated statement of comprehensive income. The Group has used the following practical expedients on initial application of NZ IFRS 16; - whether an existing contract is, or contains, a lease has not been reassessed; - applied a single discount rate to a portfolio of leases with reasonably similar characteristics; - relied on its assessment of whether leases are onerous applying NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before 1 August 2019 as an alternative to performing an impairment review; - excluded initial direct costs from the measurement of the right-of-use asset at 1 August 2019; - used hindsight in determining the lease term if the contract contains options to extend or terminate the lease.
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(b) Standards, interpretations and amendments to published standards that are not yet effective

There are no standards or amendments published but not yet effective that are expected to have a significant impact on the group.

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STATUTORY INFORMATION

GROUP STRUCTURE

Kathmandu Holdings Limited owns 100% of the following companies unless otherwise stated:

Milford Group Holdings Limited
Kathmandu Limited
Kathmandu Pty Limited
Kathmandu (UK) Limited
Kathmandu US Holdings LLC
Oboz Footwear LLC
Rip Curl Group Pty Ltd (from 31 October 2019)
 Rip Curl International Pty Ltd
 PT Jarosite
 Rip Curl Pty Ltd
 Onsmooth Thai Co Ltd
 Rip Curl Investments Pty Ltd
 Blue Surf Pty Ltd
 RC Surf Pty Ltd
 Rip Curl Airport & Tourist Stores Pty Ltd
 JRRC Rundle Mall Pty Ltd
 Rip Curl (Thailand) Ltd (group owns 50%)
 RC Airports Pty Ltd
 Ozmosis Pty Ltd
 RC Chermiside Pty Ltd
 Bondi Rip Pty Ltd
 Rip Curl Japan
 Curl Retail No 1. Pty Ltd
 RC Surf Pty Ltd
 RC Surf South Pty Ltd
 RC Surf NZ Limited (group owns 50%)
 Rip Curl Finance Pty Ltd
 Rip Curl Europe S.A.S
 Rip Curl Spain S.A.U
 Rip Curl Suisse S.A.R.L
 Surf Odyssey S.A.R.L (group owns 70%)
 Rip Surf LDA
 Rip Curl UK Ltd
 Rip Curl Germany GMBH
 Rip Curl Italy SRL
 Rip Curl Nordic AB
 Rip Curl Inc
 Ultra Manufacturing Inc (in liquidation)
 Rip Curl Canada Inc
 Rip Curl Brazil LTDA

DIRECTORS' DETAILS

David Kirk	Chairman, Non-Executive Director
Xavier Simonet	Managing Director and Group Chief Executive Officer
John Harvey	Non-Executive Director
Philip Bowman	Non-Executive Director
Brent Scrimshaw	Non-Executive Director
Andrea Martens	Non-Executive Director (appointed 1 August 2019)
Sandra McPhee	Non-Executive Director (retired 27 September 2019)

EXECUTIVES' DETAILS

Xavier Simonet	Group Chief Executive Officer
Chris Kinraid	Group Chief Financial Officer and Company Secretary

DIRECTORY

The details of the company's principal administrative and registered office in New Zealand is:

223 Tuam Street
Christchurch Central
PO Box 1234
Christchurch 8011

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SHARE REGISTRY

In New Zealand: Link Market Services (LINK)

Physical Address: Level 11 Deloitte Centre
80 Queen Street
Auckland 1010
New Zealand

Postal Address: PO Box 91976
Auckland, 1142
New Zealand

Telephone: +64 9 375 5999
Investor enquiries: +64 9 375 5998
Facsimile: +64 9 375 5990
Internet address: www.linkmarketservices.co.nz

In Australia: Link Market Services (LINK)

Physical Address: Level 1, 333 Collins Street
Melbourne, VIC 3000
Australia

Postal Address: Locked Bag A14
Sydney, South NSW 1235
Australia

Telephone: +61 2 8280 7111
Investor enquiries: +61 2 8280 7111
Facsimile: +61 2 9287 0303
Internet address: www.linkmarketservices.com.au

STOCK EXCHANGES

The company's shares are listed on the NZX and on the ASX as a foreign exempt listing.

INCORPORATION

The company is incorporated in New Zealand.



Independent review report

To the shareholders of Kathmandu Holdings Limited

Report on the consolidated interim financial statements

We have reviewed the accompanying consolidated interim financial statements of Kathmandu Holdings Limited (the Company) and its controlled entities (the Group) on pages 3 to 18, which comprise the consolidated balance sheet as at 31 January 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period ended on that date, and selected explanatory notes.

Directors' responsibility for the consolidated interim financial statements

The Directors' are responsible on behalf of the Company for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34) and for such internal control as the Directors determine is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion on the accompanying consolidated interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of agreed procedures over store turnover certificates, a covenant compliance audit, tax compliance and tax advisory services. The provision of these other services has not impaired our independence.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that these consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 January 2020, and its financial performance and cash flows for the period then ended, in accordance with IAS 34 and NZ IAS 34.

Material uncertainty relating to Going Concern

We draw attention to note 16 to the consolidated interim financial statements which describe the impacts of the COVID-19 situation on trading, a forecasted breach of banking covenants within the immediate future and measures taken by the Group which include a proposed capital raise, renegotiated banking facilities including a covenant waiver or securing alternative funding. These conditions indicate the existence of a material uncertainty that may cast doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Who we report to

This report is made solely to the Company's Shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written over a horizontal line.

Chartered Accountants
1 April 2020

Christchurch