

KATHMANDU HOLDINGS LIMITED

INTERIM REPORT 2016

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2016

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 2016.

Review of Operations

The consolidated net profit for the period was NZ\$9.410 million (2015: Net loss of NZ\$1.843 million). Sales for the period were NZ\$195.977 million (2015: NZ\$179.358 million).

A review of the operations of the Company and its controlled entities is set out in the accompanying Company's media release of 22 March 2016. The key line items in the half year results were:

- Sales up 9.3% to NZ\$196 m,
- EBIT up NZ\$14.6m to NZ\$15.1m,
- NPAT up NZ\$11.3m to a profit of NZ\$9.4m.

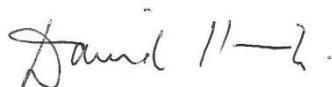
Seasonality

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

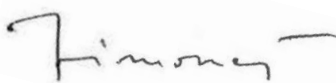
Dividends

On 21 March 2016, the Directors declared a dividend of NZ 3.0 cents per share. This will be fully imputed for New Zealand shareholders and will be unfranked for Australian shareholders.

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 2016	Unaudited Six Months Ended 31 January 2015	Audited Year Ended 31 July 2015
		NZ\$'000	NZ\$'000	NZ\$'000
Sales revenue		195,977	179,358	409,372
Cost of sales		(72,863)	(73,088)	(157,482)
Gross profit		123,114	106,270	251,890
Other income		1,031	-	23
Selling expenses	4	(70,005)	(68,644)	(142,893)
Administration and general expenses	4	(32,277)	(30,826)	(61,968)
		(102,282)	(99,470)	(204,861)
Earnings before interest, tax, depreciation and amortisation		21,863	6,800	47,052
Depreciation and amortisation	4	(6,724)	(6,227)	(13,875)
Earnings before interest and tax		15,139	573	33,177
Finance income		13	250	1,450
Finance expenses		(1,795)	(2,614)	(4,195)
Finance costs - net	4	(1,782)	(2,364)	(2,745)
Profit/(Loss) before income tax		13,357	(1,791)	30,432
Income tax expense		(3,947)	(52)	(10,013)
Profit/(Loss) after income tax		9,410	(1,843)	20,419
Comprehensive income that may be recycled through profit and loss:				
Movement in cash flow hedge reserve		(4,899)	12,401	12,415
Movement in foreign currency translation reserve		(2,061)	(2,522)	1,034
Other comprehensive income/(expense) for the period, net of tax		(6,960)	9,879	13,449
Total comprehensive income for the period attributable to shareholders		2,450	8,036	33,868
Basic earnings per share		4.7 cps	(0.9) cps	10.1 cps
Diluted earnings per share		4.6 cps	(0.9) cps	10.1 cps
Weighted average basic ordinary shares outstanding ('000)		201,485	200,876	201,343
Weighted average diluted ordinary shares outstanding ('000)		202,381	202,401	202,227

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six Months Ended 31 January 2016	Unaudited Six Months Ended 31 January 2015	Audited Year Ended 31 July 2015
	NZ\$'000	NZ\$'000	NZ\$'000
Total equity at the beginning of the period	313,314	302,146	302,146
Total comprehensive income for the period	2,450	8,036	33,868
Dividends paid	(10,074)	(18,119)	(24,163)
Issue of share capital	-	1,963	1,454
Share options / Performance rights lapsed	-	209	-
Movements in share based payments reserve	92	(606)	9
Total equity at the end of the period	305,782	293,629	313,314

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CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 31 January 2016	Unaudited As at 31 January 2015	Audited As at 31 July 2015
		NZ\$'000	NZ\$'000	NZ\$'000
ASSETS				
Current assets				
Cash and cash equivalents		4,028	1,808	1,700
Trade and other receivables		7,313	4,048	3,741
Derivative financial instruments		7,047	15,369	13,637
Current tax asset		1,565	6,166	-
Inventories		103,251	97,324	113,270
Total current assets		123,204	124,715	132,348
Non-current assets				
Property, plant and equipment	10	59,451	50,533	54,093
Intangible assets		237,314	236,290	240,033
Derivative financial instruments		-	30	20
Deferred tax		5,732	930	3,957
Total non-current assets		302,497	287,783	298,103
Total assets		425,701	412,498	430,451
LIABILITIES				
Current liabilities				
Trade and other payables		48,563	31,065	44,048
Derivative financial instruments		28	79	77
Interest bearing liabilities	6	-	87,272	39
Current tax liabilities		-	-	1,536
Total current liabilities		48,591	118,416	45,700
Non-current liabilities				
Derivative financial instruments		451	453	461
Interest bearing liabilities	6	70,877	-	70,976
Total non-current liabilities		71,328	453	71,437
Total liabilities		119,919	118,869	117,137
Net assets		305,782	293,629	313,314
EQUITY				
Contributed equity - ordinary shares		200,191	200,191	200,191
Reserves		(9,806)	(6,401)	(2,934)
Retained earnings		115,397	99,839	116,057
Total equity		305,782	293,629	313,314

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CONSOLIDATED STATEMENT OF CASH FLOWS

Note	Unaudited Six Months Ended 31 January 2016	Unaudited Six Months Ended 31 January 2015	Audited Year Ended 31 July 2015
	NZ\$'000	NZ\$'000	NZ\$'000
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers	195,301	179,035	409,506
Income tax received	-	-	2,609
Interest received	13	33	56
	<u>195,314</u>	<u>179,068</u>	<u>412,171</u>
Cash was applied to:			
Payments to suppliers and employees	162,248	172,842	363,191
Income tax paid	7,034	9,287	15,147
Interest paid	1,845	2,704	4,206
	<u>171,127</u>	<u>184,833</u>	<u>382,544</u>
Net cash inflow / (outflow) from operating activities	<u>24,187</u>	<u>(5,765)</u>	<u>29,627</u>
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of property, plant and equipment	8	-	14
	<u>8</u>	<u>-</u>	<u>14</u>
Cash was applied to:			
Purchase of property, plant and equipment	12,196	7,602	16,093
Purchase of intangibles	687	2,247	3,901
	<u>12,883</u>	<u>9,849</u>	<u>19,994</u>
Net cash (outflow) from investing activities	<u>(12,875)</u>	<u>(9,849)</u>	<u>(19,980)</u>
Cash flows from financing activities			
Cash was provided from:			
Proceeds from share issues	-	1,453	1,454
Proceeds of loan advances	33,893	51,448	101,551
	<u>33,893</u>	<u>52,901</u>	<u>103,005</u>
Cash was applied to:			
Dividends	10,074	18,119	24,163
Repayment of loan advances	33,165	25,376	93,740
	<u>43,239</u>	<u>43,495</u>	<u>117,903</u>
Net cash (outflow) / inflow from financing activities	<u>(9,346)</u>	<u>9,406</u>	<u>(14,898)</u>
Net increase / (decrease) in cash held	<u>1,966</u>	<u>(6,208)</u>	<u>(5,251)</u>
Opening cash and cash equivalents	1,700	7,192	7,192
Effect of foreign exchange rates	362	824	(241)
Closing cash and cash equivalents	<u>4,028</u>	<u>1,808</u>	<u>1,700</u>

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

	Unaudited Six Months Ended 31 January 2016	Unaudited Six Months Ended 31 January 2015	Audited Year Ended 31 July 2015
	NZ\$'000	NZ\$'000	NZ\$'000
Profit/(Loss) after taxation	9,410	(1,843)	20,419
<i>Movement in working capital:</i>			
(Increase) / decrease in trade & other receivables	(3,619)	(323)	111
(Increase) / decrease in inventories	8,672	4,850	(8,429)
Increase / (decrease) in trade and other payables	5,385	(5,697)	6,222
Decrease in tax liability	(3,122)	(8,889)	(1,205)
	7,316	(10,059)	(3,301)
<i>Add non cash items:</i>			
Depreciation	4,781	4,638	10,611
Amortisation of intangibles	1,943	1,589	3,264
UK fixed asset impairment	1,108	-	-
Revaluation of derivative financial instruments	1,363	(5,708)	(4,171)
(Increase) / decrease in deferred taxation	(1,828)	5,259	2,425
Employee share based remuneration	92	111	9
Loss on disposal of property, plant and equipment	2	248	371
	7,461	6,137	12,509
Cash inflow / (outflow) from operating activities	24,187	(5,765)	29,627

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1 GENERAL INFORMATION

Kathmandu Holdings Limited (the Company) and its subsidiaries (together the Group) is a designer, marketer and retailer of clothing and equipment for travel and adventure. It operates in New Zealand, Australia and the United Kingdom.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 11 Mary Muller Drive, Christchurch.

These consolidated interim financial statements have been approved for issue by the Board of Directors on 22 March 2016, and have been reviewed, not audited.

Seasonality

The majority of Kathmandu's annual sales are derived from three 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.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These general purpose financial statements for the six months ended 31 January 2016 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 2015 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

All significant accounting policies have been applied on a basis consistent with those used in the audited financial statements of Kathmandu Holdings Limited for the year ended 31 July 2015.

4 EXPENSES

	Unaudited Six Months Ended 31 January 2016	Unaudited Six Months Ended 31 January 2015	Audited Year Ended 31 July 2015
	NZ\$'000	NZ\$'000	NZ\$'000
Profit/(Loss) before tax includes the following expenses:			
Depreciation	4,781	4,638	10,611
Amortisation	1,943	1,589	3,264
UK fixed asset impairment	1,108	-	-
Employee benefit expense	41,685	41,344	81,685
Rental expense	28,957	25,265	52,971
Finance costs – net consist of:			
Interest income	(13)	(33)	(56)
Interest expense	1,420	1,794	3,645
Other finance costs	144	254	594
Net exchange loss/(gain) on foreign currency borrowings	231	349	(1,438)

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5 RELATED PARTY DISCLOSURES

Parent and Ultimate Controlling Party

Kathmandu Holdings Limited is the immediate parent, ultimate parent and controlling party.

During the period, legal fees of \$159,904 (2015: \$34,250) were paid to Chapman Tripp for services (primarily related to property leases). John Holland is both a Director of Kathmandu Holdings Limited and a Consultant of Chapman Tripp.

During the period, operating lease costs of \$120,497 (2015: \$117,160) were paid to Chalmers Properties Limited, a subsidiary of Port Otago Limited. John Harvey is a Director of both of these companies.

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

6 INTEREST BEARING LIABILITIES

	Unaudited As at 31 January 2016	Unaudited As at 31 January 2015	Audited As at 31 July 2015
	NZ\$'000	NZ\$'000	NZ\$'000
Current portion	-	87,272	39
Non-current portion	70,877	-	70,976
Total term loans	70,877	87,272	71,015

The Group has a multi option facility agreement with Commonwealth Bank of Australia and ASB Bank Limited and a facility agreement with Bank of New Zealand and National Bank of Australia.

The loans are repayable in full on final maturity date of the facilities being 23 March 2018. 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 1.30%. The bank loans are secured against the assets of the company and its subsidiaries.

The covenants entered into by the Group require specified calculations of Group earnings 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 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 19 December 2011 and have been complied with at 31 January 2016.

The current interest rates, prior to hedging, on the term loans ranged between 2.75% - 3.49% (2015: 3.45% - 4.57%).

7 CONTINGENT LIABILITIES

	Unaudited As at 31 January 2016	Unaudited As at 31 January 2015	Audited As at 31 July 2015
	NZ\$'000	NZ\$'000	NZ\$'000
Liabilities outstanding under letters of credit	4,479	5,789	1,871

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8 CONTINGENT ASSETS

There are no contingent assets as at 31 January 2016 (2015: nil).

9 COMMITMENTS

(a) Operating lease commitments

Group as lessee:

Rent expenses reported in these financial statements relate to non-cancellable operating leases. The future commitments on these leases are as follows:

	Unaudited As at 31 January 2016	Unaudited As at 31 January 2015	Audited As at 31 July 2015
	NZ\$'000	NZ\$'000	NZ\$'000
Due within 1 year	51,261	46,935	52,682
Due within 1-2 years	42,022	40,822	43,402
Due within 2-5 years	74,562	69,269	72,363
Due after 5 years	37,535	20,886	26,212
	<u>205,380</u>	<u>177,912</u>	<u>194,659</u>

Some of the existing lease agreements have right of renewal options for varying terms.

The Group leases various properties under non-cancellable lease agreements. These leases are generally between 1 - 10 years.

(b) Capital commitments

Capital commitments contracted for at balance date are:

	Unaudited As at 31 January 2016	Unaudited As at 31 January 2015	Audited As at 31 July 2015
	NZ\$'000	NZ\$'000	NZ\$'000
Property, plant and equipment	9,628	2,109	18,486
Intangible assets	825	-	1,192

10 PROPERTY PLANT & EQUIPMENT

	Unaudited Ended 31 January 2016	Unaudited Ended 31 January 2015	Audited Ended 31 July 2015
	NZ\$'000	NZ\$'000	NZ\$'000
Additions	12,196	7,611	16,093
Disposals	(4)	(33)	(201)

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11 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.

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 2015. 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.

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 2016.

	Total
	NZ\$' 000
Assets	
Derivative financial instruments	7,047
Total assets	7,047
Liabilities	
Derivative financial instruments	479
Total liabilities	479

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12 SEGMENTAL INFORMATION

The Group operates in three geographical areas: New Zealand, Australia and the United Kingdom.

31 January 2016	Australia NZ\$'000	New Zealand NZ\$'000	United Kingdom NZ\$'000	Other NZ\$'000	Total NZ\$'000
Total segment sales	124,402	68,305	5,400	-	198,107
Inter-segment sales	(237)	(136)	(1,757)	-	(2,130)
Sales from external customers	124,165	68,169	3,643	-	195,977
EBITDA	7,790	15,789	(212)	(1,504)	21,863
Depreciation and software amortisation	(3,423)	(3,088)	(212)	(1)	(6,724)
EBIT	4,367	12,701	(424)	(1,505)	15,139
Income tax expense	730	3,589	-	(372)	3,947
Total segment assets	225,642	213,922	4,578	(18,441)	425,701
<i>Total assets includes:</i>					
Non-current assets	149,509	26,347	50	126,591	302,497
Additions to non-current assets	11,534	1,348	1	-	12,883
Total segment liabilities	135,914	26,842	17,803	(60,640)	119,919

31 January 2015	Australia NZ\$'000	New Zealand NZ\$'000	United Kingdom NZ\$'000	Other NZ\$'000	Total NZ\$'000
Total segment sales	111,562	65,719	3,250	-	180,531
Inter-segment sales	(415)	(567)	(191)	-	(1,173)
Sales from external customers	111,147	65,152	3,059	-	179,358
EBITDA	1,915	8,794	(2,641)	(1,268)	6,800
Depreciation and software amortisation	(3,160)	(2,915)	(151)	(1)	(6,227)
EBIT	(1,245)	5,879	(2,792)	(1,269)	573
Income tax expense	(2,024)	2,280	-	(204)	52
Total segment assets	208,218	197,760	5,160	1,360	412,498
<i>Total assets includes:</i>					
Non-current assets	132,363	27,170	1,838	126,412	287,783
Additions to non-current assets	4,814	5,019	16	-	9,849
Total segment liabilities	173,905	31,061	17,237	(103,334)	118,869

The New Zealand segment has been represented to exclude holding company balances. Other represents holding companies and consolidation eliminations.

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.

The Group operates in one industry being retailer of clothing and equipment for travel and adventure.

Revenue is allocated based on the country in which the customer is located.

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.

Total assets / liabilities are allocated based on where the assets / liabilities are located.

13 EVENTS OCCURRING AFTER BALANCE DATE

There are no events after balance date which materially affect the information within the financial statements.

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STATUTORY INFORMATION

GROUP STRUCTURE

Kathmandu Holdings Limited owns 100% of the following companies:

Milford Group Holdings Limited

Kathmandu Limited

Kathmandu Pty Limited

Kathmandu (UK) Limited

DIRECTORS' DETAILS

David Kirk	Chairman, Non-Executive Director
Xavier Simonet	Managing Director and Chief Executive Officer
John Harvey	Non-Executive Director
Christine Cross	Non-Executive Director
John Holland	Non-Executive Director
Sandra McPhee	Non-Executive Director
Mark Todd	Finance Director and Chief Operating Officer (Resigned as Director 24 August 2015)

EXECUTIVES' DETAILS

Xavier Simonet	Chief Executive Officer
Reuben Casey	Chief Financial Officer and Company Secretary

DIRECTORY

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

11 Mary Muller Drive
Heathcote
PO Box 1234
Christchurch 8140

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SHARE REGISTRY

In New Zealand: **Link Market Services (LINK)**

Physical Address: Level 11 Deloitte Centre
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New Zealand

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Internet address: www.linkmarketservices.com

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Postal Address: Locked Bag A14
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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 the ASX.

INCORPORATION

The company is incorporated in New Zealand.



Independent Review Report

To the Shareholders of Kathmandu Holdings Limited

Report on the Interim Financial Statements

We have reviewed the accompanying condensed Group financial statements of Kathmandu Holdings Limited, (“the Company”) and its controlled entities (the “Group”) on pages 3 to 12, which comprise the consolidated balance sheet as at 31 January 2016, 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 a summary of significant accounting policies and other explanatory information.

Directors Responsibility for the Financial Statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Practice in New Zealand, and for such internal controls as the Directors determine are necessary to enable the preparation and fair presentation of the 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 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 financial statements, taken as a whole, are not prepared in all material respects, in accordance with the Generally Accepted Accounting Practice in New Zealand. 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 financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditors perform 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). Accordingly we do not express an audit opinion on these financial statements.

We are independent of the Group. Other than in our capacity as auditors and providers of other related assurance services we have no relationship with, or interests in, the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Group, do not present fairly, in all material respects the financial position of the Group as at 31 January 2016, and of its financial performance and its cash flows for the period ended on that date, in accordance with Generally Accepted Accounting Practice in New Zealand.



Independent Review Report

Kathmandu Holdings Limited

Restriction on Use of our Report

This report is made solely to the Company's Directors, as a body. Our review work has been undertaken so that we might state to the Company's Directors 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 Directors as a body, for our review procedures, for this report, or for the conclusion we have formed.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers' in a cursive script.

Chartered Accountants
22 March 2016

Christchurch