

Kathmandu Holdings Limited
New Zealand Stock Exchange Listing Rules Disclosure
Half Year Report

For the period ending 31 January 2015

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Appendix 1

Kathmandu Holdings Limited

Results for Announcement to the Market

Reporting Period: 6 months to 31 January 2015
Previous Reporting Period: 6 months to 31 January 2014

| | Amount (000's) | Percentage Change |
|---|----------------|-------------------|
| Revenues from ordinary activities | \$NZ 179,358 | 7% |
| Loss from ordinary activities after tax attributable to security holder | (\$NZ 1,843) | -116% |
| Net loss attributable to security holder | (\$NZ 1,843) | -116% |

| Interim Dividend | Amount per Security | Imputed Amount per Security |
|------------------|---------------------|-----------------------------|
| Interim Dividend | \$NZ 0.03 | \$NZ 0.01167 |
| Record Date | 05 June 2015 | |
| Payment Date | 19 June 2015 | |

For commentary on the results please refer to the Directors' Report and Media Announcement attached.

Financial Information

The Appendix 1 should be read in conjunction with the consolidated interim financial statements for the 6 months ending 31 January 2015 contained in the Interim Report.

Net Tangible Assets per Security

| | 2015 \$ | 2014 \$ |
|----------------------------------|------------|------------|
| Net tangible assets per security | 0.28 | 0.24 |

Information on Audit or Review

The interim report is based on accounts which have been subject to review.

Loss/Gain of Control over Entities having Material Effect

Kathmandu Holdings Limited does not have any interests in entities which are not controlled entities.

Kathmandu Holdings Limited (ASX/NZX: KMD) FY15 First Half Results – Media Announcement

- Sales increased by 7.0% to NZD \$179.4m
- Gross profit \$ decreased by 0.7% to NZD \$106.3m
- Gross margin % decreased from 63.9% to 59.3%
- EBIT decreased to NZD \$0.6m from NZD \$17.6m in 1H FY14
- NPAT was a loss of NZD \$1.8m from a profit of NZD \$11.4m in 1H FY14

Summary of Results

| | NZD \$m | | Variance | |
|-------------------|--------------|-------------|---------------|-----------------|
| | 1H FY15 | 1H FY14 | NZD \$m | % |
| Sales | 179.4 | 167.6 | 11.8 | 7.0% |
| Gross Profit | 106.3 | 107.1 | (0.8) | (0.7%) |
| EBIT | 0.6 | 17.6 | (17.0) | (96.6%) |
| Net Profit | (1.8) | 11.4 | (13.2) | (115.8%) |

Acting Chief Executive Mark Todd commented:

“As signaled in our market update in February the first half of our 2015 financial year delivered a disappointing result.

There were a number of contributing factors. The aggressive quitting of excess stock in August and September drove top line sales but at significantly reduced gross margins. This brought forward some customer purchases that would otherwise have been made at higher margins later in the half.

Most importantly our Christmas sale and trading through January did not produce the sales we expected. Our analysis tells us that contributing factors included:

- promotional campaigns that did not drive the expected foot traffic;
- some apparel product ranges, notably active wear, wovens and midweight fleece, that did not hit the mark with buyers; and
- a generally weaker discretionary spend environment in Australia.”

Sales, Store Numbers, Gross Margin and Inventory

Sales Growth 1H FY15

Same store sales growth was reduced from 2.7% in local currencies to 0.6% in the reporting currency due to the appreciation of the New Zealand dollar in the period.

Pleasing growth in the UK in both total and same stores sales was achieved in the period.

| | Total Sales NZD \$m | Total Sales Growth Local currency | Total Sales Growth NZD | Same Store Sales Growth Local currency | Same Store Sales Growth NZD |
|----------------|-------------------------------|--|----------------------------------|---|---------------------------------------|
| Australia | 111.1 | 11.7% | 7.8% | 0.9% | (2.6%) |
| New Zealand | 65.2 | 4.7% | 4.7% | 4.8% | 4.8% |
| United Kingdom | 3.1 | 28.5% | 32.7% | 26.8% | 30.9% |
| Total | 179.4 | 9.3% | 7.0% | 2.7% | 0.6% |

Note: Same store sales are for the 26 weeks ending 25 January 2015

Online Sales Growth

Online sales growth continued to be strong in all countries, with overall growth of 33% led by an uplift of over 90% in the UK. Online sales are now 5.8% of total sales.

Permanent Store Openings

Kathmandu opened eight new permanent stores in the first half of 2015, all in Australia. The Company expects to open a total of 11 new permanent stores in the 2015 financial year.

Gross Margin

Gross margin declined 4.6% pts from 63.9% to 59.3% compared to 1H FY14. This was the result of a combination of factors including the sale of a large amount of clearance stock in the first quarter, below target sales of higher margin summer apparel product groups and price pressure in some key product categories.

Inventory levels

Total inventory levels decreased by 5.1% (\$5.2m) on the same period in 2014 and by 15.8% on a per store basis.

| | 1H FY15 NZD \$m | 1H FY14 NZD \$m | Change NZD \$m | Change % | Change per store % |
|-----------|---------------------------|---------------------------|--------------------------|--------------------|------------------------------|
| Inventory | 97.3 | 102.5 | (5.2) | (5.1%) | (15.8%) |

Operating Expenses

Reduced operating leverage reflects the shortfall in 1H sales performance.

Operating expenses in the period increased by 5.1% as a percentage of sales compared to 1H FY14. The main areas of increase in expenses were:

- Rental expense (1.1%) reflecting most new stores opened in 2H FY14 and 1H FY15 being in malls.
- UK growth investment expenditure (0.9%);

Operating expenses (excluding depreciation)

| | 1H FY15 | 1H FY14 |
|--------------------------------|----------------|----------------|
| Rent, NZD \$m | 25.3 | 21.8 |
| % Sales | 14.1% | 13.0% |
| Other operating costs, NZD \$m | 74.2 | 62.7 |
| % Sales | 41.4% | 37.4% |
| Total | 99.5 | 84.5 |
| % Sales | 55.5% | 50.4% |

Other Financial Information

The increase in capital expenditure in the period was a result of the completion of nine new or relocated store projects compared to six in the first half of 2014.

Operating cash flow improved from 1H FY14 and gearing is conservative and stable.

| | 1H FY15 | 1H FY14 |
|------------------------------|----------------|----------------|
| Capital Expenditure, NZD \$m | 9.8 | 8.1 |
| Operating Cash Flow, NZD \$m | (5.8) | (16.0) |
| Net Debt, NZD \$m | 85.5 | 80.9 |
| Net Debt: Net Debt + Equity | 22.6% | 22.5% |

Interim Dividend

An unchanged interim dividend of NZ3.0 cents per share will be paid to shareholders on the register as at 5 June 2015. The dividend will be fully franked for Australian shareholders and fully imputed for New Zealand shareholders. The final dividend is expected to remain fully franked and fully imputed.

Outlook

Acting Chief Executive Mark Todd commented:

“Group same store sales have been about 2% below last year on a constant currency basis in the seven weeks to 15 March, a period with very limited promotional activity and low sales volume generally.

As with every year, the full year result is highly dependent on the sales and gross profit margin performance we achieve in the Easter and Winter sales periods. We have prepared carefully for these sales, incorporating what we learned from the first half. Promotional activity has been modified and we are even more focused on delivering benefits to our 1.2 million Summit Club members. Trading in the first week of Easter sale was soft in Australia, but satisfactory in NZ.

We continue to lay the foundations for future growth at Kathmandu. Our investments in systems, continuing brand leadership in the outdoor and adventure travel categories, and our scale all support continued growth and leadership in Australasia. We remain confident that we can succeed in developing meaningful sales in international markets.

We look forward to our new Chief Executive, Xavier Simonet, starting with us on 1 July.”

KATHMANDU HOLDINGS LIMITED

INTERIM REPORT 2015

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2015

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 2015.

Review of Operations

The consolidated net loss for the period was NZ\$1.843 million (2014: Net profit of NZ\$11.358 million). Sales for the period were NZ\$179.358 million (2014: NZ\$167.642 million).

A review of the operations of the Company and its controlled entities is set out in the accompanying Company's media release of 24 March 2015. The key line items in the half year results were:

- Sales up 7.0% to NZ\$179.4m,
- EBIT down NZ\$17.0m to NZ\$0.6m,
- NPAT down NZ\$13.2m to a loss of NZ\$1.8m.

Chief Executive Officer

Following the resignation of CEO Peter Halkett in August 2014, a comprehensive international search was undertaken to find a new CEO. The Board was delighted to announce the appointment of Xavier Simonet to CEO on 23 January 2015.

Mr. Simonet is currently the Chief Executive Officer of Radley, based in London, and will relocate to Melbourne to take up the role in July 2015. Mr Simonet brings wide experience in retailing and brand development in Australia and in many international markets. He has a proven track record building brands and developing successful retail businesses in fashion, apparel, accessories and related products.

Seasonality

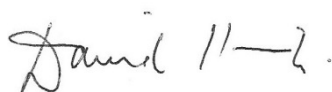
Due to the seasonal nature of the Company and its controlled entities activities, the activities in the second half of each year are expected to provide a larger portion of the sales and net profit for the full year.

The Balance Sheet at 31 January 2015 reflects a higher level of borrowings compared to other times during the year due to the seasonal nature of the Company and its controlled entities activities, in particular the amounts spent to purchase inventory.

Dividends

On 23 March, the Directors declared a dividend of NZ 3.0 cents per share. This will be fully franked for Australian shareholders and fully imputed for New Zealand shareholders.

Signed in accordance with a resolution of the directors:



David Kirk
Director



Mark Todd
Director

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Unaudited Six Months Ended 31 January 2015 | Unaudited Six Months Ended 31 January 2014 | Audited Year Ended 31 July 2014 |
|---|------|--|--|---|
| | | NZ\$'000 | NZ\$'000 | NZ\$'000 |
| Sales revenue | | 179,358 | 167,642 | 392,918 |
| Cost of sales | | (73,088) | (60,526) | (144,777) |
| Gross profit | | 106,270 | 107,116 | 248,141 |
| Other income | | - | 31 | 1,363 |
| Selling expenses | 4 | (72,717) | (62,739) | (123,193) |
| Administration and general expenses | 4 | (32,980) | (26,824) | (62,055) |
| | | 573 | 17,584 | 64,256 |
| Finance income | | 250 | 239 | 257 |
| Finance expenses | | (2,614) | (2,786) | (4,850) |
| Finance costs - net | 4 | (2,364) | (2,547) | (4,593) |
| (Loss)/Profit before income tax | | (1,791) | 15,037 | 59,663 |
| Income tax (expense)/benefit | | (52) | (3,679) | (17,511) |
| (Loss)/Profit after income tax | | (1,843) | 11,358 | 42,152 |
| Comprehensive income that may be recycled to the Income Statement: | | | | |
| Movement in cash flow hedge reserve | | 12,401 | (2,363) | (7,122) |
| Movement in foreign currency translation reserve | | (2,522) | (6,095) | (3,794) |
| Other comprehensive income for the period, net of tax | | 9,879 | (8,458) | (10,916) |
| Total comprehensive income for the period attributable to shareholders | | 8,036 | 2,900 | 31,236 |
| Basic earnings per share | | (0.9)cps | 5.7cps | 21.0cps |
| Diluted earnings per share | | (0.9)cps | 5.6cps | 20.8cps |
| Weighted average basic ordinary shares outstanding ('000) | | 200,876 | 200,260 | 200,422 |
| Weighted average diluted ordinary shares outstanding ('000) | | 202,401 | 202,206 | 202,303 |

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2015

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Unaudited Six Months Ended 31 January 2015 | Unaudited Six Months Ended 31 January 2014 | Audited Year Ended 31 July 2014 |
|--|---|---|--|
| | NZ\$'000 | NZ\$'000 | NZ\$'000 |
| Total equity at the beginning of the period | 302,146 | 294,189 | 294,189 |
| Total comprehensive income and expense for the period | 8,036 | 2,900 | 31,236 |
| Dividends paid | (18,119) | (18,028) | (24,047) |
| Issue of share capital | 1,963 | 442 | 557 |
| Share options / Performance rights lapsed | 209 | - | - |
| Movements in share based payments reserve | (606) | (112) | 211 |
| Total equity at the end of the period | 293,629 | 279,391 | 302,146 |

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2015

CONSOLIDATED BALANCE SHEET

| | Note | Unaudited as at 31 January 2015 | Unaudited as at 31 January 2014 | Audited as at 31 July 2014 |
|--------------------------------------|------|--|--|-------------------------------------|
| | | NZ\$'000 | NZ\$'000 | NZ\$'000 |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | | 1,808 | 2,295 | 7,192 |
| Trade and other receivables | | 4,048 | 2,818 | 3,779 |
| Derivative financial instruments | | 15,369 | 4,764 | 10 |
| Current tax asset | | 6,166 | 4,048 | - |
| Inventories | | 97,324 | 102,487 | 103,767 |
| Total current assets | | 124,715 | 116,412 | 114,748 |
| Non-current assets | | | | |
| Property, plant and equipment | 11 | 50,533 | 42,203 | 48,402 |
| Intangible assets | | 236,290 | 231,816 | 238,674 |
| Derivative financial instruments | | 30 | 141 | 138 |
| Deferred tax | | 930 | 2,756 | 6,335 |
| Total non-current assets | | 287,783 | 276,916 | 293,549 |
| Total assets | | 412,498 | 393,328 | 408,297 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Trade and other payables | | 31,065 | 29,747 | 37,489 |
| Derivative financial instruments | | 79 | 602 | 2,999 |
| Interest bearing liabilities | 7 | 87,272 | 227 | 231 |
| Current tax liabilities | | - | - | 2,739 |
| Total current liabilities | | 118,416 | 30,576 | 43,458 |
| Non-current liabilities | | | | |
| Derivative financial instruments | | 453 | 349 | 209 |
| Interest bearing liabilities | 7 | - | 83,012 | 62,484 |
| Total non-current liabilities | | 453 | 83,361 | 62,693 |
| Total liabilities | | 118,869 | 113,937 | 106,151 |
| Net assets | | 293,629 | 279,391 | 302,146 |
| EQUITY | | | | |
| Contributed equity - ordinary shares | | 200,191 | 197,812 | 198,228 |
| Reserves | | (6,401) | (13,238) | (15,674) |
| Retained earnings | | 99,839 | 94,817 | 119,592 |
| Total equity | | 293,629 | 279,391 | 302,146 |

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2015

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Unaudited Six Months Ended 31 January 2015 | Unaudited Six Months Ended 31 January 2014 | Audited Year Ended 31 July 2014 |
|--|------|--|--|---|
| | | NZ\$'000 | NZ\$'000 | NZ\$'000 |
| Cash flows from operating activities | | | | |
| Cash was provided from: | | | | |
| Receipts from customers | | 179,035 | 168,473 | 394,163 |
| Interest received | | 33 | 17 | 50 |
| | | <u>179,068</u> | <u>168,490</u> | <u>394,213</u> |
| Cash was applied to: | | | | |
| Payments to suppliers and employees | | 172,842 | 170,489 | 338,975 |
| Income tax paid | | 9,287 | 12,025 | 19,555 |
| Interest paid | | 2,704 | 2,014 | 4,488 |
| | | <u>184,833</u> | <u>184,528</u> | <u>363,018</u> |
| Net cash inflow / (outflow) from operating activities | 5 | <u>(5,765)</u> | <u>(16,038)</u> | <u>31,195</u> |
| Cash flows from investing activities | | | | |
| Cash was provided from: | | | | |
| Proceeds from sale of property, plant and equipment | | - | 6 | 8 |
| | | <u>-</u> | <u>6</u> | <u>8</u> |
| Cash was applied to: | | | | |
| Purchase of property, plant and equipment | | 7,602 | 4,569 | 15,168 |
| Intangibles | | 2,247 | 3,509 | 9,047 |
| | | <u>9,849</u> | <u>8,078</u> | <u>24,215</u> |
| Net cash (outflow) from investing activities | | <u>(9,849)</u> | <u>(8,072)</u> | <u>(24,207)</u> |
| Cash flows from financing activities | | | | |
| Cash was provided from: | | | | |
| Proceeds from share issues | | 1,453 | 216 | 557 |
| Proceeds of loan advances | | 51,448 | 87,627 | 53,577 |
| | | <u>52,901</u> | <u>87,843</u> | <u>54,134</u> |
| Cash was applied to: | | | | |
| Dividends | | 18,119 | 18,028 | 24,047 |
| Repayment of loan advances | | 25,376 | 45,754 | 32,778 |
| | | <u>43,495</u> | <u>63,782</u> | <u>56,825</u> |
| Net cash inflow / (outflow) from financing activities | | <u>9,406</u> | <u>24,061</u> | <u>(2,691)</u> |
| Net increase / (decrease) in cash held | | <u>(6,208)</u> | <u>(49)</u> | <u>4,297</u> |
| Opening cash and cash equivalents | | 7,192 | 2,345 | 2,345 |
| Effect of foreign exchange rates | | 824 | (1) | 550 |
| Closing cash and cash equivalents | | <u>1,808</u> | <u>2,295</u> | <u>7,192</u> |

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2015

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 23 March 2015, 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 2015 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 2014 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 2014.

4 EXPENSES

| | Unaudited Six Months Ended 31 January 2015 | Unaudited Six Months Ended 31 January 2014 | Audited Year Ended 31 July 2014 |
|---|--|--|---|
| | NZ\$'000 | NZ\$'000 | NZ\$'000 |
| Profit before tax includes the following expenses: | | | |
| Depreciation | 4,638 | 4,275 | 8,500 |
| Amortisation | 1,589 | 711 | 1,698 |
| Employee benefit expense | 37,404 | 31,693 | 72,082 |
| Rental expense | 25,265 | 21,821 | 44,461 |
| Finance costs – net consist of: | | | |
| Interest income | (33) | (17) | (50) |
| Interest expense | 1,794 | 1,665 | 3,904 |
| Other finance costs | 254 | 291 | 570 |
| Net exchange loss/(gain) on foreign currency borrowings | 349 | 608 | 169 |

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2015

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

| | Unaudited Six Months Ended 31 January 2015 | Unaudited Six Months Ended 31 January 2014 | Audited Year Ended 31 July 2014 |
|--|--|--|---|
| | NZ\$'000 | NZ\$'000 | NZ\$'000 |
| Profit after taxation | (1,843) | 11,358 | 42,152 |
| <i>Movement in working capital:</i> | | | |
| (Increase) / decrease in trade & other receivables | (323) | 831 | (119) |
| (Increase) / decrease in inventories | 4,850 | (24,492) | (24,978) |
| Increase / (decrease) in trade and other payables | (5,697) | (2,109) | 5,176 |
| (Decrease) / increase in tax liability | (8,889) | (9,422) | (2,689) |
| | (10,059) | (35,192) | (22,610) |
| <i>Add non cash items:</i> | | | |
| Depreciation | 4,638 | 4,275 | 8,500 |
| Amortisation of intangibles | 1,589 | 711 | 1,698 |
| Revaluation of derivative financial instruments | (5,708) | 1,528 | 3,079 |
| (Increase) / decrease in deferred taxation | 5,259 | 1,076 | (2,432) |
| Employee share based remuneration | 111 | 115 | 211 |
| Loss on sale of property, plant and equipment | 248 | 91 | 597 |
| | 6,137 | 7,796 | 11,653 |
| Cash inflow from operating activities | (5,765) | (16,038) | 31,195 |

6 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 \$34,250 (2014: \$65,213) were paid to Chapman Tripp for services (primarily related to property leases). John Holland is both a Director of Kathmandu Holdings Limited and a Partner of Chapman Tripp.

During the period, operating lease costs of \$148,853 (2014: \$138,394) 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.

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2015

7 INTEREST BEARING LIABILITIES

| | Unaudited As at 31 January 2015 | Unaudited As at 31 January 2014 | Audited As at 31 July 2014 |
|---------------------|--|--|-------------------------------------|
| | NZ\$'000 | NZ\$'000 | NZ\$'000 |
| Current portion | 87,272 | 227 | 231 |
| Non-current portion | - | 83,012 | 62,484 |
| Total term loans | 87,272 | 83,239 | 62,715 |

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, both dated 19 December 2011. The loans are repayable in full on final maturity date of the facilities being 21 December 2015. The current portions of the loans are working capital drawdowns made under the same facilities. Interest is payable based on the BKBM rate (\$NZ borrowings), the BBSY rate (\$A borrowings), or the applicable short term rate for interest periods less than 30 days, plus a margin of up to 1.15%. The bank loans are secured against the assets of the company and its subsidiaries.

On 23 March 2015 the Group has entered into a new 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 with a maturity date of 23 March 2018 on terms consistent within the existing facility agreement.

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 half. The calculations of these covenants are specified in the bank syndicated facility agreement of 19 December 2011 and have been complied with at 31 January 2015.

The current interest rates, prior to hedging, on the term loans ranged between 3.45% - 4.57% (2014: 3.41% - 3.76%).

8 CONTINGENT LIABILITIES

| | Unaudited As at 31 January 2015 | Unaudited As at 31 January 2014 | Audited As at 31 July 2014 |
|---|--|--|-------------------------------------|
| | NZ\$'000 | NZ\$'000 | NZ\$'000 |
| <i>Bank guarantees issued in relation to:</i> | | | |
| Liabilities outstanding under letters of credit | 5,789 | 2,049 | 1,301 |
| Rent guarantees | 11,575 | 8,967 | 9,923 |
| Financial guarantees | 1,871 | 1,813 | 1,286 |

Financial guarantees cover overdrafts, credit card limits and deferred duty.

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2015

9 CONTINGENT ASSETS

There are no contingent assets as at 31 January 2015 (2014: nil).

10 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 2015 | Unaudited As at 31 January 2014 | Audited As at 31 July 2014 |
|----------------------|--|--|-------------------------------------|
| | NZ\$'000 | NZ\$'000 | NZ\$'000 |
| Due within 1 year | 46,935 | 40,254 | 45,220 |
| Due within 1-2 years | 40,822 | 34,750 | 38,531 |
| Due within 2-5 years | 69,269 | 59,920 | 62,999 |
| Due after 5 years | 20,886 | 10,841 | 9,157 |
| | <u>177,912</u> | <u>145,765</u> | <u>155,907</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 2015 | Unaudited As at 31 January 2014 | Audited As at 31 July 2014 |
|-------------------------------|--|--|-------------------------------------|
| | NZ\$'000 | NZ\$'000 | NZ\$'000 |
| Property, plant and equipment | 2,109 | 505 | 3,420 |
| Intangible assets | - | 3,791 | 1,135 |

11 PROPERTY PLANT & EQUIPMENT

| | Unaudited Ended 31 January 2015 | Unaudited Ended 31 January 2014 | Audited Ended 31 July 2014 |
|-----------|--|--|-------------------------------------|
| | NZ\$'000 | NZ\$'000 | NZ\$'000 |
| Additions | 7,611 | 4,569 | 15,168 |
| Disposals | (33) | (122) | (776) |

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2015

12 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 Parent is not directly exposed to any significant financial 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 2014. 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 2015.

| | Total |
|----------------------------------|------------------|
| | NZ\$' 000 |
| Assets | |
| Derivative financial instruments | 15,399 |
| Total assets | 15,399 |
| Liabilities | |
| Derivative financial instruments | 532 |
| Total liabilities | 532 |

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13 SEGMENTAL INFORMATION

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

| 31 January 2015 | Australia NZ\$'000 | New Zealand NZ\$'000 | United Kingdom NZ\$'000 | Elimination NZ\$'000 | Total NZ\$'000 |
|--|-------------------------------|-------------------------------------|--|---------------------------------|---------------------------|
| Segment profit / (loss) before income tax | (6,938) | 6,259 | (2,564) | 1,452 | (1,791) |
| Income tax expense | | | | | (52) |
| Profit / (loss) after tax | | | | | (1,843) |
| Segment profit / (loss) before income tax includes the following specific income and (expenses): | | | | | |
| Sales to external customers | 111,147 | 65,152 | 3,059 | - | 179,358 |
| Sales to Group entities | 415 | 567 | 191 | (1,173) | - |
| Cost of sales | (42,939) | (28,642) | (1,507) | - | (73,088) |
| Interest income | 23 | 10 | - | - | 33 |
| Interest expense | (1,423) | (371) | - | - | (1,794) |
| Other finance costs | (215) | (39) | - | - | (254) |
| Intercompany net finance income/(expense) | (1,419) | 1,419 | - | - | - |
| Intercompany recharges income/(expense) | (4,954) | 4,954 | - | - | - |
| Depreciation and software amortisation | (3,160) | (2,916) | (151) | - | (6,227) |
| Exchange gain/(loss) on foreign currency borrowings | (2,516) | 488 | 227 | 1,452 | (349) |
| Additions of non-current assets | 4,814 | 5,019 | 16 | - | 9,849 |
| Total current assets | 75,855 | 148,872 | 3,322 | (103,334) | 124,715 |
| Total non-current assets | 132,363 | 647,204 | 1,838 | (493,622) | 287,783 |
| Total assets | 208,218 | 796,076 | 5,160 | (596,956) | 412,498 |
| Total current liabilities | (173,826) | (31,061) | (17,237) | 103,334 | (118,790) |
| Total non-current liabilities | (79) | - | - | - | (79) |
| Total liabilities | (173,905) | (31,061) | (17,237) | 103,334 | (118,869) |

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| 31 January 2014 | Australia NZ\$'000 | New Zealand NZ\$'000 | United Kingdom NZ\$'000 | Elimination NZ\$'000 | Total NZ\$'000 |
|--|-----------------------|----------------------------|-------------------------------|-------------------------|-------------------|
| Segment profit / (loss) before income tax | 2,817 | 9,853 | (1,218) | 3,585 | 15,037 |
| Income tax expense | | | | | (3,679) |
| Profit / (loss) after tax | | | | | 11,358 |
| Segment profit / (loss) before income tax includes the following specific income and (expenses): | | | | | |
| Sales to external customers | 103,054 | 62,282 | 2,306 | - | 167,642 |
| Sales to Group entities | 556 | 877 | 144 | (1,577) | - |
| Cost of sales | (33,596) | (25,787) | (1,143) | - | (60,526) |
| Interest income | 12 | 5 | - | - | 17 |
| Interest expense | (1,047) | (618) | - | - | (1,665) |
| Other finance costs | (158) | (134) | - | - | (292) |
| Intercompany net finance income/(expense) | (1,361) | 1,361 | - | - | - |
| Intercompany recharges income/(expense) | (4,513) | 4,513 | - | - | - |
| Depreciation and software amortisation | (2,865) | (1,938) | (183) | - | (4,986) |
| Exchange gain/(loss) on foreign currency borrowings | (4,393) | (106) | 221 | 3,670 | (608) |
| Additions of non-current assets | 3,024 | 4,331 | 723 | - | 8,078 |
| Total current assets | 67,553 | 429,541 | 2,582 | (383,264) | 116,412 |
| Total non-current assets | 127,909 | 341,841 | 1,993 | (194,827) | 276,916 |
| Total assets | 195,462 | 771,382 | 4,575 | (578,091) | 393,328 |
| Total current liabilities | (92,990) | (10,250) | (11,805) | 84,469 | (30,576) |
| Total non-current liabilities | (61,669) | (21,692) | - | - | (83,361) |
| Total liabilities | (154,659) | (31,942) | (11,805) | 84,469 | (113,937) |

Revenue is allocated based on the country in which the customer is located. New Zealand includes holding company costs and head office charges.

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

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

14 EVENTS OCCURRING AFTER BALANCE DATE

On 23 March 2015 the Group has entered into a new 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 with a maturity date of 23 March 2018.

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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

| | |
|-----------------|---|
| Mark Todd | Finance Director and Acting Chief Executive Officer |
| David Kirk | Non-Executive Director (Chairman) |
| John Harvey | Non-Executive Director |
| John Holland | Non-Executive Director |
| Sandra McPhee | Non-Executive Director |
| Christine Cross | Non-Executive Director |

EXECUTIVES' DETAILS

| | |
|--------------|---|
| Mark Todd | Chief Executive Officer (Acting) |
| Reuben Casey | Chief Financial Officer and Company Secretary |

DIRECTORY

Kathmandu New Zealand (Head Office)

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 7, Zurich House,
21 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.com

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 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 13, which comprise the condensed statement of financial position as at 31 January 2015, and the condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the period ended on that date, and selected explanatory notes.

Directors’ Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the directors determine are necessary to enable the preparation of 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 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 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). Accordingly we do not express an audit opinion on these financial statements.

We have no relationship with, or interests in, Kathmandu Holdings Limited other than in our capacities as accountants conducting this review, auditors and providers of assurance services. Appropriate safeguards were applied to reduce the threats to independence from the provision of other services to an acceptable level. The provision of these other services has not impaired our independence as auditors of the Company.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Company are not prepared, in all material respects, in accordance with NZ IAS 34.



Restriction on Use of Our Report

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 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 'Primatehwa Cooper'.

Chartered Accountants
23 March 2015

Christchurch