

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

For the period ending 31 January 2016

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Appendix 1

Kathmandu Holdings Limited

Results for Announcement to the Market

Reporting Period: 6 months to 31 January 2016
Previous Reporting Period: 6 months to 31 January 2015

| | Amount (000's) | Percentage Change |
|---|----------------|-------------------|
| Revenues from ordinary activities | \$NZ 195,977 | 9% |
| Profit from ordinary activities after tax attributable to security holder | \$NZ 9,410 | 611% |
| Net profit attributable to security holder | \$NZ 9,410 | 611% |

| Interim Dividend | Amount per Security | Imputed Amount per Security |
|------------------|---------------------|-----------------------------|
| Interim Dividend | \$NZ 0.03 | \$NZ 0.01167 |
| Record Date | 03 June 2016 | |
| Payment Date | 17 June 2016 | |

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 2016 contained in the Interim Report.

Net Tangible Assets per Security

| | 2016 \$ | 2015 \$ |
|----------------------------------|------------|------------|
| Net tangible assets per security | 0.34 | 0.28 |

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 FY2016 first half results

- Sales increased by 9.3% to NZ\$196.0m
- Gross profit increased by 15.8% to NZ\$123.1m
- Gross margin increased from 59.3% to 62.8%
- EBIT increased to NZ\$15.1m from NZ\$0.6m
- NPAT increased to NZ\$9.4m from a loss of NZ\$1.8m

Kathmandu Holdings Limited (ASX/NZX: KMD) today announced earnings before interest and tax (EBIT) of NZ\$15.1 million for the six months ended 31 January 2016, an increase of NZ\$14.5 million compared with the prior corresponding period. Net profit after tax (NPAT) of NZ\$9.4 million was an increase of NZ\$11.2 million over the first half of FY2015.

Summary of Results

| | 1H FY16 NZD \$m | 1H FY15 NZD \$m | Change NZD \$m | Change % |
|--------------|--------------------|--------------------|-------------------|-------------|
| Sales | 196.0 | 179.4 | 16.6 | 9.3% |
| Gross Profit | 123.1 | 106.3 | 16.8 | 15.8% |
| EBITDA | 21.9 | 6.8 | 15.1 | |
| EBIT | 15.1 | 0.6 | 14.5 | |
| NPAT | 9.4 | (1.8) | 11.2 | |

Chief Executive Officer Xavier Simonet commented:

“The results for the first half of FY2016 were in line with our expectations. Operating margin improvement was achieved as a result of increased full price sell through combined with implementing planned cost efficiencies.”

Sales, Store Numbers, Gross Margin and Inventory

Sales Growth

Same store sales growth was recorded in all markets and was supplemented by expansion of the store network in Australia and New Zealand.

| | Total Sales | | Total Sales Growth | | Same Store Sales Growth | |
|----------------|--------------|----------------|--------------------|----------------|-------------------------|--|
| | NZD \$m | Local currency | NZD | Local currency | NZD | |
| Australia | 124.2 | 8.9% | 11.7% | 4.3% | 7.0% | |
| New Zealand | 68.2 | 4.6% | 4.6% | 3.1% | 3.1% | |
| United Kingdom | 3.6 | 1.6% | 19.1% | 1.5% | 18.9% | |
| Total | 196.0 | 7.2% | 9.3% | 3.8% | 5.8% | |

Note: Same store sales are for the 26 weeks ending 31 January 2016.

Online Sales Growth

Online sales grew strongly in all countries, with overall growth of c. 23% resulting in online sales making up 6.6% of total sales.

Store Openings

Kathmandu opened four new stores in the first half of FY2016, three in Australia, and one in New Zealand.

Gross Margin

Gross margin improved 3.5% pts from 59.3% in 1H FY15 to 62.8% in 1H FY16.

Improved full price sell through along with initial actions taken to optimise pricing and promotional activity contributed to this increase. It is expected that gross margins in 2H FY16 will come under increasing pressure as USD hedging matures at less favourable rates.

Inventory

Total inventory increased by 6.2% (NZ\$6.0m) on 1H FY15 and by 2.9% on a per store basis at actual exchange rates.

| | 1H FY16 NZD \$m | 1H FY15 NZD \$m | Change NZD \$m | Change % | Change per store % |
|-----------|--------------------|--------------------|-------------------|-------------|-----------------------|
| Inventory | 103.3 | 97.3 | 6.0 | 6.2% | 2.9% |

The monetary value of inventory on hand increased due to appreciation of the USD. In terms of units available for sale vs last year, there were c. 9% fewer stock units on hand as at 31 January 2016.

Operating Expenses

Operating expenses increased by NZ\$1.8m but decreased by 3.8% as a percentage of sales compared to 1H FY15.

Rent grew by NZ\$3.7m reflecting the full year impact of stores opened during FY2015 and new stores opened in 1H FY16.

Other operating expenses (inclusive of net UK store exit costs) decreased by NZ\$1.9m or 4.5% as a percentage of sales, with efficiencies achieved in advertising and distribution following a structural review which targeted cost savings of c. NZ\$7.0m during FY2016. Non-recurring expenses of NZ\$1.0m were incurred for net UK store exit costs and support office restructuring.

Operating expenses (excluding depreciation)

| | 1H FY16 NZD \$m | 1H FY15 NZD \$m |
|--------------------------|----------------------------|----------------------------|
| Rent | 29.0 | 25.3 |
| <i>% of Sales</i> | <i>14.8%</i> | <i>14.1%</i> |
| Other operating expenses | 72.3 | 74.2 |
| <i>% of Sales</i> | <i>36.9%</i> | <i>41.4%</i> |
| Total | 101.3 | 99.5 |
| <i>% of Sales</i> | <i>51.7%</i> | <i>55.5%</i> |

Other Financial Information

Capital expenditure increased by NZ\$3.1m compared to the prior corresponding period due to investment in distribution capacity in Australia, which was offset by a reduction in core systems investment (project completed in 1H FY15).

Operating cash flow was NZ\$30.0m higher than 1H FY15 with improved cash conversion.

Gearing decreased from 1H FY15 and remains conservative.

| | 1H FY16 NZD \$m | 1H FY15 NZD \$m |
|-----------------------------|----------------------------|----------------------------|
| Capital Expenditure | 12.9 | 9.8 |
| Operating Cash Flow | 24.2 | (5.8) |
| Net Debt | 66.8 | 85.5 |
| Net Debt: Net Debt + Equity | 17.9% | 22.6% |

Interim Dividend

An interim dividend of NZ3.0 cents per share will be paid to shareholders on the register as at 3 June 2016. The dividend will be unfranked for Australian shareholders and fully imputed for New Zealand shareholders.

Outlook

Chief Executive Xavier Simonet commented:

“While it is good to be on track with our plan for the first half, as in every year, the full year result is highly dependent on the sales and margin achievement in our Easter and Winter campaigns. We have just commenced our Easter Sale so it is too early to provide an update on this promotion.

We remain committed to offering great value, innovative, distinctive and quality products to our customers and providing a seamless shopping experience whether instore or online.

I am excited about the opportunities for Kathmandu to further expand into international markets and our profitable Australasian business is providing the foundation for this.

Sustainable growth requires continued cost efficiencies and leveraging existing investments and this will remain a strong focus for management in FY2016 and beyond.

We reconfirm our stated FY2016 full year net profit after tax guidance of NZ\$30.2m.”

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.

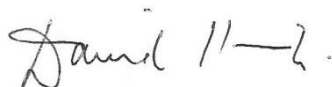
Seasonality

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.

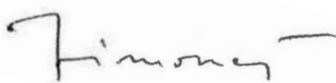
Dividends

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

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2016

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 |

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2016

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 |

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2016

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 |

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2016

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> |

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2016

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 |

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2016

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) |

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2016

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 |

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2016

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) |

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2016

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 |

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2016

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

KATHMANDU HOLDINGS LIMITED - INTERIM REPORT 2016

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.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 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 'Primatehoop Cooper'.

Chartered Accountants
22 March 2016

Christchurch