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KMD BRANDS LIMITED

23 March 2022

Half Year Report
For the period ending 31 January 2022

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Results announcement

Results for announcement to the market		
Name of issuer	KMD Brands Limited (formerly Kathmandu Holdings Limited)	
Reporting Period	6 months to 31 January 2022	
Previous Reporting Period	6 months to 31 January 2021	
Currency	NZD	
	Amount (000s)	Percentage change
Revenue from continuing operations	\$407,304	-0.8%
Total Revenue	\$407,304	-0.8%
Net profit/(loss) from continuing operations	(\$5,883)	-126.8%
Total net profit/(loss)	(\$5,505)	-124.7%
Interim Dividend		
Amount per Quoted Equity Security	\$0.03000000	
Imputed amount per Quoted Equity Security	NIL	
Record Date	15 June 2022	
Dividend Payment Date	30 June 2022	
	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	\$0.16	\$0.14
A brief explanation of any of the figures above necessary to enable the figures to be understood	The interim results are based on accounts which have been subject to review. Refer to accompanying unaudited financial statements.	
Authority for this announcement		
Name of person authorised to make this announcement	Frances Blundell	
Contact person for this announcement	Frances Blundell	
Contact phone number	+64 3 968 6110	
Contact email address	companysecretary@kmdbrands.com	
Date of release through MAP	Wednesday, 23 March 2022	

Unaudited financial statements accompany this announcement.



(All amounts in NZ\$ unless otherwise stated)

Strategic initiatives position KMD Brands for return to global growth

Leading global outdoor, lifestyle and sports company, KMD Brands Limited (**ASX / NZX: KMD**, 'KMD' or the '**Company**'), is pleased to announce its results for the six months ended 31 January 2022 (1H FY22).

1H FY22 key highlights (vs 1H FY21):

- Sales of \$407.3 million (1H FY21: \$410.7 million)
 - positive Q2 rebound following Q1 COVID lockdown impacts on Kathmandu and Rip Curl in Australasia
 - Oboz impacted by COVID closure of Vietnam factories (now reopened)
- Gross margin of 57.7% (1H FY21: 59.0%), due to elevated international freight costs, and increased clearance mix for the Kathmandu brand
- Underlying EBITDA of \$10.2 million (1H FY21: \$48.2 million) (excluding the impact of IFRS 16)
- Statutory NPAT loss of \$(5.5) million
- Strong balance sheet with \$48.6 million net debt and comfortably within all covenants; significant funding headroom of c.\$250 million
- Interim dividend increased by 50% to 3.0 cents per share (fully franked for Australian shareholders)

Commenting on the 1H FY22 results, Group CEO & Managing Director Michael Daly said:

"We continued to deliver on our strategic objectives, positioning KMD Brands for growth as travel rebounds globally and COVID-related impacts on supply abate. We maintained a strong focus on building our global brands, sponsoring the first ever World Surf League finals, with the men's event won by a Rip Curl surfer. We opened twelve new owned / licensed retail stores globally, and online sales increased to 17.4% of direct-to-consumer sales, rewarding initiatives to elevate digital capabilities. Substantial progress was also achieved on our ESG strategy."

"Rip Curl delivered sales growth of 2.7% over the half, with strong sales growth in online and wholesale channels, underpinned by strong performance in Europe and Hawaii in particular, while North America was impacted by short-term wetsuit shortages and port congestion. Rip Curl returned to same store sales growth in Q2, as lockdown restrictions lifted and the business rebounded."

"The Kathmandu Australasian store network was more impacted by COVID closures in Q1 than the Rip Curl global store network, before recovering strongly in Q2. While Kathmandu continued to feel the impacts of COVID related travel restrictions, we were pleased to see a 46.4% increase in online sales, and the business is well positioned to grow internationally, with the Europe Fall / Winter 22 sell-in complete, and forward orders in line with expectations."



“Oboz was impacted by the closure of Vietnam supplier factories due to COVID lockdowns, with approximately half of 1H FY22 orders unable to be fulfilled. However, the demand for the Oboz brand and products has never been stronger, with forward orders into FY23 very strong and supporting our medium-term growth targets.”

“Our rebranding to KMD Brands earlier this month reflects our purpose to inspire people to explore and love the outdoors, with a vision of being the leading family of global outdoor brands – designed for purpose, driven by innovation, best for people and planet. It is with this ethos in mind that we look to develop our portfolio of global brands, underpinned by investments that deliver a world-class unified commerce experience, and our commitment to operational excellence and leadership in ESG.”

Group financial performance

	Statutory	Underlying ¹		
NZ\$ million ²	1H FY22	1H FY22	1H FY21	Var %
Sales	407.3	407.3	410.7	(0.8%)
Gross Profit	234.9	234.9	242.5	(3.1%)
Operating Expenses	(178.8)	(224.7)	(194.3)	15.7%
EBITDA	56.1	10.2	48.2	(78.8%)
EBIT	0.9	(5.5)	33.4	
NPAT	(5.5)	(6.8)	23.1	

The 1H FY22 Group results were underpinned by positive Q2 sales following Q1 COVID lockdown impacts on Kathmandu and Rip Curl in Australasia. While these lockdowns impacted EBITDA by c. \$35 million, Q2 underlying EBITDA was above last year reflecting the rebound in sales.

The Group invested in the long-term value of all three brands, with an additional \$14 million expenditure in 1H FY22 to support brand marketing.

Rip Curl: result underpinned by online and wholesale channel growth

	Underlying ¹		
NZ\$ million	1H FY22	1H FY21	Var%
Sales	257.8	251.1	2.7%
Gross Profit	152.7	150.3	1.5%
Operating Expenses	(118.9)	(101.7)	17.0%
EBITDA	33.7	48.7	(30.7%)
EBIT	26.4	41.4	(36.4%)

¹ Underlying results exclude the impact of IFRS 16 leases and one-off abnormal costs

² 1H FY22 NZD/AUD conversion rate 0.953 (1H FY21: 0.931), 1H FY22 NZD/USD conversion rate 0.694 (1H FY21 0.684)



Rip Curl's results were supported by strong sales growth in online and wholesale channels, with total sales up 2.7% on 1H FY21. Europe and Hawaii in particular achieved strong sales growth, while North America was impacted by wetsuit shortages and port congestion, and Australia was impacted by COVID-related store closures during Q1.

Direct-to-consumer ('DTC') same store sales growth (comprising owned retail stores and online) was up 2.1%, adjusted for COVID lockdowns³. Q2 same store sales growth was +3.0%, with +20.1% same store sales growth compared to Q2 FY20 (pre-COVID). Online sales grew by 14.5%, with penetration increasing from 11.5% of DTC sales in 1H FY21 to 13.8% of DTC sales in 1H FY22.

Wholesale sales were up 16.1%, with less COVID interruption to the 1H FY22 sell-in period than last year. The slight reduction in gross margin to 59.2% (1H FY21: 59.9%) was due to a higher wholesale mix and elevated international freight costs.

Kathmandu: rebounded in Q2

	Underlying ¹		
NZ\$ million	1H FY22	1H FY21	Var %
Sales	128.3	129.3	(0.8%)
Gross Profit	74.3	82.0	(9.4%)
Operating Expenses	(92.6)	(81.4)	13.7%
EBITDA	(18.3)	0.5	
EBIT	(26.3)	(6.8)	

Kathmandu's performance continued to be impacted by COVID-related lockdowns and travel restrictions. Same store sales (including online)³ were up 3.0% overall, as a result of a strong Q2 rebound, where same store sales grew by +15.4%. Online sales grew 46.4%, with penetration increasing from 14.4% of sales in 1H FY21 to 21.2% in 1H FY22.

Gross margin was impacted by an elevated clearance mix and elevated international freight costs.

Oboz: result reflects unprecedented supply challenges

	Underlying ¹		
NZ\$ million	1H FY22	1H FY21	Var %
Sales	21.2	30.4	(30.2%)
Gross Profit	7.7	10.5	(27.0%)
Operating Expenses	(8.0)	(6.7)	20.3%

³ Same store sales are for the 26 full weeks ended 30 January 2022 and are measured at constant currency. Adjusted same store sales removes stores that were not able to open for a comparable period in either year because of COVID closures.



EBITDA	(0.4)	3.8	
EBIT	(0.8)	3.6	

Oboz wholesale and online sales were heavily impacted by the three-month COVID-related closure of Vietnam factories and compounded by international freight delays, with approximately 50% of 1H FY22 orders unable to be fulfilled. Oboz Vietnam factories have since reopened and are ramping up production, with supply expected to recover during 2H FY22.

Gross margin was impacted by significant international freight costs averaging more than 300% over the historical average.

Strong balance sheet

The strong balance sheet position allows the Group to support growth investments and pursue attractive M&A opportunities. The Group had a net debt position of \$48.6 million, with significant funding headroom of c. \$250 million, with all debt facility covenants comfortably complied with.

Inventory is \$20 million above January 2021, and is being managed to mitigate increased production lead times and international shipping delays. January stock balances traditionally include stock build for key Rip Curl Northern Hemisphere summer and Kathmandu winter seasons.

The adjusted operating cash outflow was \$50.1 million.

As a result of the strong Balance Sheet and outlook for a recovery post-lockdowns, the Directors declared an interim dividend of NZ 3.0 cents per share, a 50% increase from NZ 2.0 cents last year. The interim dividend will be fully franked for Australian shareholders, and not imputed for New Zealand shareholders. The record date for this dividend is 15 June 2022, and the payment date is 30 June 2022.

Committed to ESG excellence

Commenting on the Group's ESG initiatives, Mr Daly said: "During 1H FY22, we achieved a number of ESG milestones across our businesses. We expanded our wetsuit take-back program to all Rip Curl stores in Australia and finalised Rip Curl's ESG strategy. We were honoured to have Kathmandu win the Deloitte New Zealand Top 200 Sustainable Business Leadership award, a testament to the hard work of our team. Lastly, Oboz established an employee volunteer program, so our staff can give back to the community."

"We are leading the way in ESG initiatives to improve our business and have a positive influence on the wider communities we operate within and impact. Sustainability is at the core of our businesses, and we are working towards finalising and communicating our Group ESG strategy, which will include setting science-based targets. We continue our work to extend Kathmandu's B-Corp certification across all three of our brands."



Outlook

Mr Daly said:

"While we continue to navigate impacts from COVID on global supply chains, forward demand for our Rip Curl and Oboz products remains at record levels, and Kathmandu enters the traditionally strong winter season well prepared."

"We will continue to invest in building our global brands in the second half, with the launch of Kathmandu online sites in Europe and Canada and the merging of Canada and UK fulfilment centres for all brands."

"We remain focused on several key initiatives to elevate our digital capabilities, with the Club Rip Curl loyalty scheme due to launch in the second half. In addition, we will relaunch Kathmandu's Summit Club, with an exciting new value proposition."

"I am excited by the opportunities we have to build our portfolio of brands under our new parent company KMD Brands. The parent company is providing vision and strategic guidance to enable group synergies, including sharing expertise in technology, materials and leveraging operational excellence in sourcing, supply chain and systems, to deliver the best customer experience across our brands."

Investor briefing being held today @ 8:30am AEDT / 10:30am NZDT

Michael Daly (Group CEO & Managing Director) and Chris Kinraid (Group CFO) will be holding a briefing session for investors and analysts at 8:30am AEDT / 10:30am NZDT today. To pre-register and avoid a queue when calling, please follow this link:

https://event.webcasts.com/starthere.jsp?ei=1533195&tp_key=075e00df55

If you are unable to pre-register, at the time of the call please dial one of the numbers below and provide the **conference ID 177616** to the operator.

Australia Toll Free:	1800 590 693
Australia Local:	+61 3 8317 0929
Australia Alt. Local:	+61 7 3105 0937
New Zealand Toll Free:	0800 423 972
United States:	800 289 0459
Brazil	+55 11 3181 5319
France	+33 1 76 77 22 73

This announcement has been authorised for release to NZX and ASX by the Board of Directors of KMD Brands Limited.

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About KMD Brands

KMD Brands is a global outdoor, lifestyle and sports company consisting of three iconic brands: Kathmandu, Rip Curl and Oboz. A Certified B Corp, Kathmandu was founded in 1987 in New Zealand and specialises in quality clothing and equipment for travel and adventure. Oboz, part of the group since 2018, is based in North America and designs 'True to the Trail®' outdoor footwear to help people explore the wilderness. Rip Curl, acquired in 2019, is a leading global surf brand born in Bells Beach, Australia in 1969. Through these three brands KMD Brands has transformed from a leading Australasian retailer to a brand-led global multi-channel business.

www.kmdbrands.com



KMD BRANDS LIMITED
(formerly Kathmandu Holdings Limited)

INTERIM REPORT 2022

KMD BRANDS LIMITED - INTERIM REPORT 2022

DIRECTORS' REPORT

The Directors of KMD Brands Limited present the Interim Report for the Company and its controlled entities for the half year ended 31 January 2022.

Review of Operations

COVID-19 continues to cause ongoing disruption to our customers, employees, and suppliers globally. The disruption has resulted in reduced retail footfall, temporary store closures, supply chain delays and staffing constraints in many locations. As a result of these disruptions the Group has recorded a consolidated net loss after tax for the period of NZ\$5.5 million (2021: NZ\$22.3 million profit).

Significant store closures in Victoria, New South Wales, ACT and New Zealand heavily impacted Q1 sales and profitability with underlying EBITDA down c. \$35 million on the prior period. Pleasingly Q2 rebounded strongly in Australasia as Kathmandu and Rip Curl grew on the comparable period. Oboz was materially impacted during the period as Vietnam factory shutdowns constrained supply and its ability to fulfil demand.

Gross margin for the period was 130 basis points lower than last year due to elevated international freight costs, and increased clearance mix for the Kathmandu brand.

Operating expenses were carefully controlled during store closures and the Group continued to invest in the long-term value of all three brands, with an additional \$14 million of expenditure in period to support brand marketing. Operating expenses reflect \$15.2 million lower net government wage assistance and rent abatements than last half year.

A further review of the operations of the Company and its controlled entities is set out in the accompanying Company's media release of 23 March 2022.

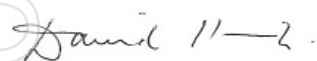
Seasonality

Due to the seasonal nature of the Group's activities, the activities in the second half of the year historically provide a larger portion of the sales and net profit for the full year.

Impact of COVID-19

The Group has reviewed the impact on the business from the continually evolving COVID-19 situation. During the half year, trade at a number of the Group's stores continued to be disrupted by COVID-19 related travel restrictions and government mandated lockdowns and closures. Refer to note 4 of the Financial Statements for further disclosure about the impact of COVID-19.

Signed in accordance with a resolution of the Directors:



David Kirk
Director



Michael Daly
Director

KMD BRANDS LIMITED - INTERIM REPORT 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Unaudited Six Months Ended 31 January 2021 NZ\$'000	Audited Year Ended 31 July 2021 NZ\$'000
Sales revenue	5	407,304	410,713	922,792
Cost of sales		(172,359)	(168,196)	(381,170)
Gross profit		234,945	242,517	541,622
Other income	5	3,568	20,891	29,165
Selling expenses	3, 6	(99,761)	(96,710)	(217,115)
Administration and general expenses	3, 6	(82,630)	(71,343)	(145,641)
		(178,823)	(147,162)	(333,591)
Earnings before interest, tax, depreciation, and amortisation		56,122	95,355	208,031
Depreciation and amortisation	6	(55,241)	(56,168)	(115,847)
Earnings before interest and tax		881	39,187	92,184
Finance income		716	453	834
Finance expenses		(6,447)	(9,648)	(17,311)
Finance costs - net	6	(5,731)	(9,195)	(16,477)
(Loss)/Profit before income tax		(4,850)	29,992	75,707
Income tax expense		(655)	(7,713)	(12,278)
(Loss)/Profit after income tax		(5,505)	22,279	63,429
(Loss)/Profit for the period attributable to:				
Shareholders of the company		(5,883)	21,962	63,066
Non-controlling interest		378	317	363
Other comprehensive income/(loss) that may be recycled through profit and loss:				
Movement in cash flow hedge reserve		4,492	(4,194)	6,482
Movement in foreign currency translation reserve		16,121	(16,648)	(17,527)
Movement in other reserves		-	14	14
Other comprehensive income/(loss) for the period, net of tax		20,613	(20,828)	(11,031)
Total comprehensive income for the period		15,108	1,451	52,398
Total comprehensive income for the period attributable to:				
Owners of the company		14,684	1,165	52,118
Non-controlling interest		424	286	280
Basic earnings per share (restated)		(0.8) cps	3.1 cps	8.9 cps
Diluted earnings per share (restated)		(0.8) cps	3.1 cps	8.8 cps
Weighted average basic ordinary shares outstanding ('000) (restated)		709,001	709,001	709,001
Weighted average diluted ordinary shares outstanding ('000) (restated)		715,331	711,578	713,006

KMD BRANDS LIMITED - INTERIM REPORT 2022

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital	Cash Flow Hedge Reserve	Foreign Currency Translation Reserve	Share Based Payments Reserve	Other Reserves	Retained Earnings	Non-controlling Interest	Total Equity
	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Balance as at 31 July 2020	626,380	(5,141)	(12,018)	608	(61)	165,415	4,007	779,190
Profit after tax	-	-	-	-	-	63,066	363	63,429
Other comprehensive income	-	6,482	(17,444)	-	14	-	(83)	(11,031)
Dividends paid	-	-	-	-	-	(14,180)	-	(14,180)
Issue of share capital	-	-	-	-	-	-	-	-
Share based payment expense	-	-	-	1,798	-	-	-	1,798
Lapsed share options	-	-	-	(58)	-	58	-	-
Deferred tax on share-based payment transactions	-	-	-	289	-	-	-	289
Acquisition of remaining shares in non-controlling interest	-	-	-	-	-	(427)	(217)	(644)
Balance as at 31 July 2021	626,380	1,341	(29,462)	2,637	(47)	213,932	4,070	818,851
(Loss)/Profit after tax	-	-	-	-	-	(5,883)	378	(5,505)
Other comprehensive income	-	4,492	16,075	-	-	-	46	20,613
Dividends paid	-	-	-	-	-	(21,270)	-	(21,270)
Issue of share capital	-	-	-	-	-	-	-	-
Share based payment expense	-	-	-	1,205	-	-	-	1,205
Lapsed share options	-	-	-	(77)	-	77	-	-
Deferred tax on share-based payment transactions	-	-	-	300	-	-	-	300
Dividends paid to non-controlling interest	-	-	-	-	-	-	(446)	(446)
Balance as at 31 January 2022	626,380	5,833	(13,387)	4,065	(47)	186,856	4,048	813,748

KMD BRANDS LIMITED - INTERIM REPORT 2022

CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 31 January 2022 NZ\$'000	Unaudited As at 31 January 2021 NZ\$'000	Audited As at 31 July 2021 NZ\$'000
ASSETS				
Current assets				
Cash and cash equivalents		58,278	228,471	142,614
Trade and other receivables	8	68,186	57,831	68,931
Inventories		249,603	229,641	216,545
Derivative financial instruments	11	9,133	93	5,285
Current tax asset	3	11,099	2,028	3,430
Other current assets		2,347	2,779	2,320
Total current assets		398,646	520,843	439,125
Non-current assets				
Trade and other receivables	8	1,576	3,639	1,549
Property, plant, and equipment		79,295	82,647	79,284
Intangible assets		699,178	681,217	688,551
Deferred tax assets	3	14,200	4,755	13,977
Right-of-use assets	9	252,340	238,218	242,677
Total non-current assets		1,046,589	1,010,476	1,026,038
Total assets		1,445,235	1,531,319	1,465,163
LIABILITIES				
Current liabilities				
Trade and other payables		130,105	123,211	149,206
Derivative financial instruments	11	-	11,775	1,079
Current tax liabilities	3	2,281	4,301	10,159
Current lease liability	9	74,809	74,997	75,572
Total current liabilities		207,195	214,284	236,016
Non-current liabilities				
Non-current trade and other payables		15,137	13,596	14,818
Interest bearing liabilities	10	106,838	238,566	105,597
Deferred tax	3	90,285	82,720	86,182
Non-current lease liability	9	212,032	201,114	203,699
Total non-current liabilities		424,292	535,996	410,296
Total liabilities		631,487	750,280	646,312
Net assets		813,748	781,039	818,851
EQUITY				
Issued capital		626,380	626,380	626,380
Reserves		(3,536)	(37,011)	(25,531)
Retained earnings		186,856	187,377	213,932
Non-controlling interest		4,048	4,293	4,070
Total equity		813,748	781,039	818,851

KMD BRANDS LIMITED - INTERIM REPORT 2022

CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Unaudited Six Months Ended 31 January 2021 NZ\$'000	Audited Year Ended 31 July 2021 NZ\$'000
Cash was provided from:			
Receipts from customers	413,710	424,918	920,374
Government grants received	2,948	18,223	23,892
Interest received	140	453	834
Income tax received	-	8	1,050
	416,798	443,602	946,150
Cash was applied to:			
Payments to suppliers and employees	404,812	368,268	722,656
Income tax paid	13,982	13,881	24,987
Interest paid	6,173	7,621	15,435
	424,967	389,770	763,078
Net cash (outflow) / inflow from operating activities	(8,169)	53,832	183,072
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of property, plant, and equipment	-	24	2
	-	24	2
Cash was applied to:			
Purchase of property, plant, and equipment	8,929	6,125	15,044
Purchase of intangibles	4,229	6,141	20,509
Acquisition of subsidiaries	-	-	1,029
	13,158	12,266	36,582
Net cash (outflow) from investing activities	(13,158)	(12,242)	(36,580)
Cash flows from financing activities			
Cash was provided from:			
Proceeds of borrowings	24,000	-	-
	24,000	-	-
Cash was applied to:			
Dividends paid	21,716	-	14,180
Repayment of borrowings	24,000	-	128,894
Repayment of lease liabilities	41,896	43,161	89,749
	87,612	43,161	232,823
Net cash (outflow) from financing activities	(63,612)	(43,161)	(232,823)
Net (decrease) in cash held	(84,939)	(1,571)	(86,331)
Opening cash and cash equivalents	142,614	231,885	231,885
Effect of foreign exchange rates	603	(1,843)	(2,940)
Closing cash and cash equivalents	58,278	228,471	142,614

KMD BRANDS LIMITED - INTERIM REPORT 2022

RECONCILIATION OF NET (LOSS)/PROFIT AFTER TAXATION WITH CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Unaudited Six Months Ended 31 January 2021 NZ\$'000	Audited Year Ended 31 July 2021 NZ\$'000
(Loss)/Profit after income tax	(5,505)	22,279	63,429
<i>Movement in working capital:</i>			
(Increase) / decrease in trade and other receivables	1,770	15,219	5,604
(Increase) / decrease in inventories	(29,973)	(3,015)	8,190
(Increase) / decrease in other current assets	-	-	431
Increase / (decrease) in trade and other payables	(21,084)	(25,596)	3,504
Increase / (decrease) in tax liability	(15,562)	(4,167)	398
	(64,849)	(17,559)	18,127
<i>Add non-cash items:</i>			
Depreciation of property, plant, and equipment	10,227	10,358	20,851
Amortisation of intangibles	5,490	4,457	8,614
Depreciation of right-of-use assets	39,524	41,353	86,382
Impairment of assets	-	-	1,910
Paycheck Protection Program (PPP) loan forgiveness	-	(684)	(4,025)
Foreign currency translation of working capital balances	3,327	(5,062)	(3,319)
Movement in deferred taxation	2,235	(1,993)	(12,057)
Employee share-based remuneration	1,205	667	1,798
Loss on disposal of property, plant, and equipment and intangibles	177	16	1,362
	62,185	49,112	101,516
Cash (outflow)/inflow from operating activities	(8,169)	53,832	183,072

KMD BRANDS LIMITED - INTERIM REPORT 2022

1 GENERAL INFORMATION

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

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

These consolidated interim financial statements have been approved for issue by the Board of Directors on 23 March 2022, and have been reviewed, not audited.

Seasonality – due to the seasonal nature of the Group's activities, the activities in the second half of the year historically provide a larger portion of the sales and net profit for the full year.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These general-purpose financial statements for the six months ended 31 January 2022 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 2021 which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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

3 ACCOUNTING POLICIES

Other than the operating segment change highlighted in Note 7 and the changes noted below, the consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as those used in the audited financial statements of Kathmandu Holdings Limited for the year ended 31 July 2021.

Selling and administrations expenses classification

During the preparation of financial statements for the year ended 31 July 2021 the Group identified an error in the Rip Curl segment's classification of selling expenses and administration and general expenses in the previously reported interim financial statements for the six months ended 31 January 2021. As a result, selling expenses for the six months ended 31 January 2021 have increased by \$14,414,000 with a corresponding decrease in administration and general expenses to align with the Group policy. The restatement has no impact on total expenditure.

Tax restatements

In preparing the financial statements for the year ended 31 July 2021 the Group identified an error in the 31 January 2021 interim financial statements relating to the Rip Curl acquisition accounting. The nature of the error related to an overstatement of deferred tax by \$737,000, understatement of current tax by \$2,478,000 and an understatement of goodwill by \$1,741,000. The statement of comprehensive income and cash flows remain unchanged. The 31 January 2021 comparatives presented in these financial statements have been restated to reflect these changes.

Also during the year ended 31 July 2021 the Group recognised \$9,578,000 of previously unrecognised Rip Curl US tax losses. As a result of recognising the deferred tax losses the deferred tax asset is now separately disclosed in the consolidated balance sheet. For consistency the 31 January 2021 deferred tax asset of \$4,755,000 has also been separately disclosed in the consolidated balance sheet. The deferred tax assets for the six months ended 31 January 2021 was previously netted off in the deferred tax liability balance of \$82,720,000.

Consideration of the IFRS Interpretations Committee ('IFRIC') agenda decision

In April 2021, IFRIC issued an agenda decision clarifying its interpretation on how current accounting standards apply to configuration and customisation costs incurred in implementing Software-as-a-Service ('SaaS') cloud computing arrangements. The IFRIC decision has clarified that because SaaS arrangements are service contracts that provide the Group with the right to access the cloud provider's application software over the contract period, costs to configure or customise this software should be recognised as operating expenses when the services are received.

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The Group's current accounting policy is to record these configuration and customisation costs as part of the cost of an intangible asset and amortise these costs over the useful life of the software assets. The Group is well advanced in a detailed review process with a professional services firm to quantify the impact of this agenda decision on the financial statements of the Group; however, given the quantum of the amounts involved and the analysis required, this has not been finalised as at the date of this report. We will continue our review the capitalised SaaS costs to reliably quantify the extent of any adjustment that maybe required due to the agenda decision and therefore we have continued to capitalise new costs that have occurred after 31 July 2021 in line with the previously approved accounting policy. At 31 January 2022 the Group's carrying value of capitalised software is \$29,165,000 which includes SaaS solutions.

It is anticipated that this exercise will be completed and reflected in the results for the financial year ending 31 July 2022.

New standards first applied in the period

There are no new standards first applied in the period.

Standards, interpretations, and amendments to published standards that are not yet effective

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

4 IMPACT OF COVID-19

COVID-19 continues to have an impact on the Group, with local and global restrictions on movement, travel and gatherings resulting in a significant reduction in footfall during the period. Stores across our network continue to open and close based on government mandated lockdowns and staffing constraints a result of illness and isolation requirements

As outlined in the 2021 Annual Report, there continues to be uncertainties due to the COVID-19 pandemic that affects the Group's key estimates and judgements, including:

Intangible assets and goodwill – the ability to achieve future forecasts and the consequential impact on the carrying value of goodwill and other finite life intangibles. The Group have considered whether there are any events or changes in circumstances since 31 July 2021 and the signing of the 2021 consolidated financial statements that may be an impairment indicator as at 31 January 2022.

Factors considered include:

- The Group market capitalisation remains above the net assets of the Group at 31 January 2022, this is further supported by an increase in the share price since year end.
- The trading performance of each cash generating unit (CGU) for the period is broadly in line with our internal expectations when the impact of the Q1 lockdowns and Oboz supply chain disruptions are excluded; and
- Each CGU continues to have sufficient headroom above the carrying value of its assets when the expected FY22 result (inclusive of the Q1 impact) is applied to the FY21 impairment models.

Having considered the above factors the Group is comfortable that there are no material adverse events or changes in circumstances that would require impairment testing to be performed at 31 January 2022.

Trade receivables – the ability of wholesale customers to pay. The Group continues to actively monitor payment collection rates and the level of provisions across the Group. The receivable ageing continues to improve and as a result the expected credit loss has been adjusted (refer note 8).

Despite the continuing impact of COVID-19, the Directors are satisfied that there will be adequate cash flows generated from operating and financing activities to meet the obligations of the Group for a period of at least 12 months from the date of approving the consolidated financial statements. The Group was fully compliant with all banking covenants during the period and, based on the current cash flow forecasts, the Group expects to remain compliant with all covenants at all measurement dates for at least 12 months from the date of approving the consolidated financial statements.

Taking into consideration the current trading results, the net debt (excluding lease liabilities) of \$48,560,000 and liquidity of \$247,193,000 at 31 January 2022 (refer note 10), the financial statements continue to be prepared on a going concern basis.

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5 REVENUE

	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Unaudited Six Months Ended 31 January 2021 NZ\$'000	Audited Year Ended 31 July 2021 NZ\$'000
Sale of goods	401,722	406,679	915,570
Royalty revenue	5,290	3,885	6,950
Commission revenue	292	149	272
	407,304	410,713	922,792

Other income includes government grants received by group entities of \$2,948,000 (2021: \$20,503,000) related to wage and other subsidies received in response to the impact of COVID-19.

6 EXPENSES

	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Unaudited Six Months Ended 31 January 2021 NZ\$'000	Audited Year Ended 31 July 2021 NZ\$'000
(Loss)/Profit before tax includes the following expenses:			
Depreciation of property, plant, and equipment	10,227	10,358	20,851
Amortisation	5,490	4,457	8,614
Depreciation of right-of-use assets	39,524	41,353	86,382
Impairment expense	-	-	1,910
Employee entitlements expense	94,591	99,717	199,190
Rental expense	7,225	5,558	9,977
Finance costs – net consist of:			
Interest income	(140)	(453)	(834)
Interest expense on term debt	629	1,411	2,370
Interest on lease liabilities	4,269	4,493	8,879
Other finance costs	1,549	3,929	5,358
Net exchange loss/(gain) on foreign currency	(576)	(185)	704
	5,731	9,195	16,477

Other finance costs relate to facility fees on banking arrangements and debt underwriting costs.

7 SEGMENTAL INFORMATION

The Group has three operating segments representing the brands owned by the Group and a Corporate segment. These operating segments have been determined based on the reports reviewed by the Group Chief Executive Officer and Group Executive Management team.

The operating segments have changed from those reported as at 31 July 2021 to reflect changes in the Group's internal organisation. Comparative information as at 31 January 2021 has been restated accordingly.

- **Rip Curl** - designs, manufactures, wholesales and retails surfing equipment and apparel.
- **Kathmandu** - designs, markets, retails and wholesales apparel, footwear and equipment for outdoor travel and adventure.
- **Oboz** - designs, markets, wholesales and retails online outdoor footwear.

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

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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 default basis of allocating shared costs is percentage of revenue with other bases being used where appropriate.

31 January 2022

	Rip Curl NZ\$'000	Kathmandu NZ\$'000	Oboz NZ\$'000	Corporate NZ\$'000	Total NZ\$'000
Total Segment Sales	257,834	128,277	21,255	-	407,366
Sales from internal customers	-	-	62	-	62
Sales from external customers	257,834	128,277	21,193	-	407,304
EBITDA	52,657	8,503	(230)	(4,808)	56,122
Depreciation and software amortisation	(24,008)	(30,624)	(604)	(5)	(55,241)
EBIT	28,649	(22,121)	(834)	(4,813)	881
Income tax expense	(9,129)	7,361	127	986	(655)
Total segment assets	653,111	658,771	127,107	6,246	1,445,235
<i>Total assets include:</i>					
Non-current assets	443,681	490,283	112,612	13	1,046,589
Additions to non-current assets	23,729	32,619	769	-	57,144
Total segment liabilities	251,249	256,498	19,438	104,302	631,487

31 January 2021 (restated)

	Rip Curl NZ\$'000	Kathmandu NZ\$'000	Oboz NZ\$'000	Corporate NZ\$'000	Total NZ\$'000
Total Segment Sales	251,080	129,265	32,374	-	412,719
Sales from internal customers	-	-	2,006	-	2,006
Sales from external customers	251,080	129,265	30,368	-	410,713
EBITDA	67,775	28,563	3,804	(4,787)	95,355
Depreciation and software amortisation	(25,186)	(30,748)	(232)	(2)	(56,168)
EBIT	42,589	(2,185)	3,572	(4,789)	39,187
Income tax expense	(11,253)	1,584	(833)	2,789	(7,713)
Total segment assets	629,444	769,196	124,050	8,629	1,531,319
<i>Total assets include:</i>					
Non-current assets	419,650	489,767	101,038	21	1,010,476
Additions to non-current assets	16,213	20,272	306	21	36,812
Total segment liabilities	245,186	253,241	17,294	234,559	750,280

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8 TRADE AND OTHER RECEIVABLES

	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Unaudited Six Months Ended 31 January 2021 NZ\$'000	Audited Year Ended 31 July 2021 NZ\$'000
Current:			
Trade receivables	53,594	52,805	61,084
Allowance for expected credit losses	(5,193)	(9,845)	(5,680)
Other receivables and prepayments	19,785	14,871	13,527
	68,186	57,831	68,931
Non-current:			
Other receivables	1,576	3,639	1,549

9 LEASES

Right-of-use assets

The movements in right of use assets for the period ended 31 January 2022 were as follows:

	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Unaudited Six Months Ended 31 January 2021 NZ\$'000	Audited Year Ended 31 July 2021 NZ\$'000
Opening net book value	242,677	258,699	258,699
Additions and modifications to right-of-use asset	43,986	24,546	76,853
Depreciation for the period	(39,524)	(41,352)	(86,382)
Impairment for the period	-	-	(1,894)
Exchange differences	5,201	(3,675)	(4,599)
Closing net book value	252,340	238,218	242,677

Lease liabilities

The movements in lease liabilities for the period ended 31 January 2022 were as follows:

	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Unaudited Six Months Ended 31 January 2021 NZ\$'000	Audited Year Ended 31 July 2021 NZ\$'000
Opening lease liabilities	279,271	298,622	298,622
Additions and modifications to lease liability	44,484	24,082	75,601
Interest expense on lease liabilities	4,269	4,493	8,879
Repayment of lease liabilities (including interest)	(46,663)	(47,189)	(98,694)
Exchange differences	5,480	(3,897)	(5,137)
Closing net book value	286,841	276,111	279,271

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10 INTEREST BEARING LIABILITIES

	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Unaudited Six Months Ended 31 January 2021 NZ\$'000	Audited Year Ended 31 July 2021 NZ\$'000
Interest bearing liabilities	106,838	238,566	105,597

Group Facility Agreement

The Group has a multi-option syndicated facility agreement, with a sustainability linked loan of A\$100 million, a revolving cash advance facility of A\$115 million and NZ\$24 million, trade finance sub-facilities of A\$30 million and NZ\$10 million, and instruments sub-facilities of A\$20 million and NZ\$4 million. All facilities are repayable in full on 26 May 2024.

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 1.25%. The debt is secured by the assets of the guaranteeing group in accordance with the Security Trust Deed dated 25 October 2019 as amended 26 May 2021.

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 25 October 2019 as amended and restated on 26 May 2021. The Group has complied with its banking covenants at all measurement points during the year.

The current interest rate, prior to hedging, on the term loans is at 1.00% (2021: 0.96%).

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.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages this risk by actively managing working capital and ensuring flexibility in funding arrangements. Refer to note 10 for details of the funding arrangements in place as at 31 January 2022. Also refer to note 4 for the liquidity risk in relation to the impact of COVID-19.

The consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 July 2021. 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.

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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 balance date:

	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Unaudited Six Months Ended 31 January 2021 NZ\$'000	Audited Year Ended 31 July 2021 NZ\$'000
Assets			
Derivative financial instruments	9,133	93	5,285
Total assets	9,133	93	5,285
Liabilities			
Derivative financial instruments	-	11,775	1,079
Total liabilities	-	11,775	1,079

12 COMMITMENTS

Capital commitments

Capital commitments contracted for at balance date are:

	Unaudited Six Months Ended 31 January 2022 NZ\$'000	Unaudited Six Months Ended 31 January 2021 NZ\$'000	Audited Year Ended 31 July 2021 NZ\$'000
Property, plant, and equipment	2,902	2,945	4,110
Intangible assets	11,108	13,669	7,271

Intangible asset commitments as at 31 January 2022 relate to various projects across the Group to upgrade information technology software and systems.

13 CONTINGENT LIABILITIES

The Group is subject to litigation incidental to its business, none of which is expected to be material. No provision has been made in the Group's consolidated interim financial statements in relation to any current litigation and the Directors believe that such litigation will not have a material effect on the Group's consolidated interim financial position, results of operations or cash flows.

14 CONTINGENT ASSETS

There are no contingent assets as at 31 January 2022 (2021: nil).

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15 RELATED PARTY DISCLOSURES

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

16 EVENTS OCCURRING AFTER BALANCE DATE

On 23 March 2022, the Directors declared an interim dividend of NZ 3.0 cents per share to be paid on 30 June 2022. This dividend will not be imputed but will be fully franked for Australian shareholders.

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

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STATUTORY INFORMATION

GROUP STRUCTURE

KMD Brands Limited owns 100% of the following companies unless otherwise stated:

Milford Group Holdings Limited
Kathmandu Limited
Kathmandu Pty Limited
Kathmandu (U.K.) Limited
Kathmandu US Holdings LLC
Oboz Footwear LLC
Barrel Wave Holdings Pty Ltd
Rip Curl Group Pty Ltd
Rip Curl International Pty Ltd
PT Jarosite
Rip Curl Pty Ltd
Onsmooth Thai Co Ltd
Rip Curl Investments Pty Ltd
Blue Surf Pty Ltd
RC Surf Pty Ltd
Rip Curl Airport & Tourist Stores Pty Ltd
JRRC Rundle Mall Pty Ltd
Rip Curl (Thailand) Ltd (Group owns 50%)
RC Airports Pty Ltd
Ozmosis Pty Ltd
RC Chermshire Pty Ltd
Bondi Rip Pty Ltd
Rip Curl Japan
Curl Retail No 1. Pty Ltd
RC Surf Sydney Pty Ltd
RC Surf South Pty Ltd
RC Surf NZ Limited
Rip Curl Finance Pty Ltd
Rip Curl Europe S.A.S
Rip Curl Spain S.A.U
Rip Curl Suisse S.A.R.L
Rip Surf LDA
Rip Curl UK Ltd
Rip Curl Germany GMBH
Rip Curl Nordic AB
Rip Curl Inc
Rip Curl Canada Inc
Rip Curl Brazil LTDA

DIRECTORS' DETAILS

David Kirk	Chairman, Non-Executive Director
Michael Daly	Managing Director and Group Chief Executive Officer
John Harvey	Non-Executive Director
Philip Bowman	Non-Executive Director
Brent Scrimshaw	Non-Executive Director
Andrea Martens	Non-Executive Director
Abby Foote	Non-Executive Director (Appointed 15 October 2021)

EXECUTIVES' DETAILS

Michael Daly	Group Chief Executive Officer
Chris Kinraid	Group Chief Financial Officer

DIRECTORY

The details of the Company's principal administrative and registered office in New Zealand are:

223 Tuam Street
Christchurch Central
PO Box 1234
Christchurch 8011

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SHARE REGISTRY

In New Zealand:

Link Market Services (LINK)

Physical Address: Level 30, PWC Tower
15 Customs Street West
Auckland 1010
New Zealand

Postal Address: PO Box 91976
Auckland, 1142
New Zealand

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

In Australia:

Link Market Services (LINK)

Physical Address: Level 13, Tower 4
727 Collins Street
Melbourne VIC 3000
Australia

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

Telephone: +61 3 9067 2005
Investor enquiries: +61 1300 554 474 (toll free within Australia)
Facsimile: +61 2 9287 0303
Internet address: www.linkmarketservices.com.au

STOCK EXCHANGES

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

INCORPORATION

The Company is incorporated in New Zealand.



Independent Review Report

To the shareholders of KMD Brands Limited

Report on the consolidated interim financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements of KMD Brands Limited (the 'Company') and its subsidiaries (the 'Group') on pages 3 to 15 do not:

- i. present, in all material respects the Group's financial position as at 31 January 2022 and its financial performance and cash flows for the 6 month period ended on that date in compliance with NZ IAS 34 Interim Financial Reporting.

We have completed a review of the accompanying consolidated interim financial statements which comprise:

- the consolidated balance sheet as at 31 January 2022;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for conclusion

A review of consolidated interim financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of KMD Brands Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Our firm has not provided other services to the group. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as reviewer of the group. The firm has no other relationship with, or interest in, the group.



Use of this Independent Review Report

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



Responsibilities of the Directors for the consolidated interim financial statements

The Directors, on behalf of the group, are responsible for:

- the preparation and fair presentation of the consolidated interim financial statements in accordance with NZ IAS 34 Interim Financial Reporting;
- implementing necessary internal controls to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's Responsibilities for the review of the consolidated financial interim statements

Our responsibility is to express a conclusion on the consolidated interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting.

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 consolidated interim financial statements.

This description forms part of our Independent Review Report.



KPMG
Christchurch
23 March 2022