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KMD BRANDS LIMITED

20 September 2022

Full Year Report
For the period ending 31 July 2022

Contents

KMD BRANDS

KMD BRANDS LIMITED **W** kmdbrands.com

Results announcement

Results for announcement to the market		
Name of issuer	KMD Brands Limited (formerly Kathmandu Holdings Limited)	
Reporting Period	12 months to 31 July 2022	
Previous Reporting Period	12 months to 31 July 2021	
Currency	NZD	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	$979,802	6.2%
Total Revenue	$979,802	6.2%
Net profit/(loss) from continuing operations	$36,828	-40.0%
Total net profit/(loss)	$36,828	-40.0%
Interim Dividend		
Amount per Quoted Equity Security	$0.03000000	
Imputed amount per Quoted Equity Security	Nil	
Record Date	10 November 2022	
Dividend Payment Date	25 November 2022	
	Current period	**Prior comparable period**
Net tangible assets per Quoted Equity Security	$0.17	$0.19
A brief explanation of any of the figures above necessary to enable the figures to be understood	The year end results are based on accounts which have been subject to audit. Refer to accompanying audited financial statements and media release for further information.	
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	Tuesday, 20 September 2022	

Audited financial statements accompany this announcement.

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20 September 2022
(All amounts in NZ$ unless otherwise stated)

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KMD Brands delivers record sales and dividend in FY22

KMD Brands Limited (**ASX/NZX: KMD**, **"KMD"** or the **"Company"**) is pleased to announce its results for the twelve months ended 31 July 2022 ("FY22").

FY22 key highlights (vs FY21):

- Group sales up 6.2% to $979.8 million, a record for KMD Brands
  - Continued growth in Rip Curl sales, highest-ever Kathmandu sales in Q4, and record order demand for Oboz products
- Gross margin maintained at 58.9% despite input cost pressure
- Underlying EBITDA[1] of $92.0 million reflects the impact of Q1 Australasian lockdowns and Oboz supply chain COVID disruption
  - Record second half Group sales and underlying EBITDA
- Statutory NPAT of $36.8 million; Underlying NPAT[1] of $36.2 million
- Strong balance sheet position supports investment in organic brand growth
- Final dividend of 3 cents per share (fully franked for Australian shareholders); total FY22 dividend of 6 cents per share represents a record $42.5 million dividends declared in FY22

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

"KMD Brands continued to deliver strong results over the past 12 months while navigating substantial COVID challenges in the first half. The strength of our brands was evident in record Group sales of nearly $980 million, with a strong return to sales growth across all of our brands in the final quarter. In addition, we made significant progress across each of our strategic pillars to build global brands, elevate our digital presence, leverage our operational excellence, and be a leader in ESG."

"Rip Curl achieved sales growth across all channels and key international regions, particularly Europe, Hawaii and South-East Asia, as we continued to invest in the long-term value of the brand. Rip Curl's wholesale order books remain significantly above pre-COVID levels, allowing us to better manage supply chain disruption through near-term inventory investment."

"Although impacted substantially by COVID lockdowns and restricted travel in the first half of FY22, Kathmandu saw a strong rebound in the second half. The brand achieved its highest-ever sales result in Australia for the key winter promotion period during Q4, and its highest-ever second half gross margin result. Oboz continued its strong brand momentum, with record demand for Oboz products as COVID supply challenges were addressed."

"With the effects of COVID now largely behind us and international travel returning, we are very focused on executing our growth strategy through expanding our global footprint, investing in digital platforms, leveraging operational excellence, and leading the industry through sustainability and innovation."

[1] Excluding the impact of IFRS 16

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Group financial performance

	Statutory	Underlying[2]		
NZ$ million[3]	**FY22**	**FY22**	**FY21**	**Var %**
Sales	979.8	979.8	922.8	6.2%
Gross Profit	576.7	576.7	541.6	6.5%
Gross margin	58.9%	58.9%	58.7%	
Operating Expenses	(396.8)	(484.7)	(432.1)	12.2%
EBITDA	179.9	92.0	109.5	(16.0%)
EBIT	67.4	57.1	80.9	(29.4%)

The FY22 Group results were underpinned by sales growth in Rip Curl and Kathmandu. Although the Group, like most global consumer companies, experienced elevated international freight costs and raw material cost pressures, gross margin was maintained at 58.9%. Operating expenses reflect higher wage and rent costs relative to sales, supporting teams during significant periods of COVID-related store closures, particularly in Q1. The Group also upweighted investment in brand marketing and ESG to drive future brand growth (+$18.6 million increase YOY).

Rip Curl: sales growth across all channels

	Underlying[2]		
NZ$ million	**FY22**	**FY21**	**Var%**
Sales	536.8	490.4	9.5%
EBITDA	59.1	65.8	(10.1%)
EBIT	43.5	51.4	(15.3%)

Rip Curl's results were underpinned by sales growth across all channels, with total sales up 9.5% to $536.8 million. Europe, Hawaii, and South-East Asia in particular achieved strong sales growth.

Wholesale sales were up 16.5% with less COVID disruptions to the 1H FY22 sell-in period, and continued strong growth in 2H. Rip Curl wholesale forward order books remain significantly above pre-COVID levels. The wholesale channel now accounts for a similar level of sales to the retail store channel. The direct-to-consumer (DTC) channel, encompassing owned retail stores and online, generated same store sales growth of 3.9%.

EBITDA reduced given elevated international freight costs, and planned investment in further long-term brand building in key markets.

Kathmandu: strong winter season performance

	Underlying[2]		
NZ$ million	**FY22**	**FY21**	**Var %**
Sales	381.6	357.4	6.8%
EBITDA	36.4	37.9	(4.1%)
EBIT	18.0	24.3	(26.0%)

[2] Excluding the impact of IFRS 16
[3] FY22 NZD/AUD conversion rate 0.935 (FY21: 0.931), FY22 NZD/USD conversion rate 0.674 (FY21 0.699)

Kathmandu's performance was underpinned by a strong winter season, with Q4 sales and gross margin both above FY19 (pre-COVID). Total sales were up 6.8% to $381.6 million, with a strong rebound after lockdowns. The wholesale channel strategy was launched, representing a substantial global growth opportunity for the brand, with encouraging early wholesale orders taken from a select number of retailers in Europe and Canada.

DTC still accounts for nearly all of Kathmandu sales, with DTC same store sales growth up 9.1%. Online sales grew 24.9%, now representing 18.7% of total sales. The sales result was supported by continued investment in the long-term value of the brand and an embedded loyalty base of close to 2 million members.

Full year EBITDA reduced slightly, with profitability rebounding in 2H following COVID lockdowns in 1H. Kathmandu achieved the highest-ever 2H gross margin result. Raw material and international freight cost pressure was more than offset by currency benefit and the deliberate strategy to carefully moderate the historic 'high-low' pricing model. Brand momentum is building from a renewed focus on, and investment in, marketing and product.

Oboz: impacted by unprecedented and transitory supply challenges

	Underlying[2]		
NZ$ million	**FY22**	**FY21**	**Var %**
Sales	61.3	75.0	(18.2%)
EBITDA	3.3	11.8	(71.7%)
EBIT	2.5	11.3	(78.0%)

Oboz wholesale and online sales were heavily impacted by the three-month COVID closure of Vietnam factories and compounded by international freight delays, with approximately 40% of FY22 orders unable to be fulfilled. Factories resumed full production during Q3, with sales growth resuming as inventory levels recovered in Q4.

EBITDA reflected the lower sales level, and elevated international freight costs.

Brand momentum remains strong with forward orders into FY23 supporting the path to Oboz's US$100 million medium-term revenue target, and online performance indicates a significant growth opportunity.

Strong balance sheet

At 31 July 2022, the Group had a net debt position of $40.1 million with significant funding headroom of c. $260 million.

The strong balance sheet position provided flexibility to secure supply of core technical products and raw materials to support availability. Increased inventory levels reflected a strategic decision to temporarily build stock positions to meet forward wholesale orders and expected retail demand, and to mitigate potential supply challenges. This position is expected to normalise during FY23, dependent on supply chain conditions.

Operating cash flows were impacted by COVID lockdowns in Q1, and the strategic decision to build near-term inventory. An unwind of inventory and continued sales growth in FY23,

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with full trade unimpeded by COVID, are expected to underpin increased cash flow generation in FY23.

The Company's strong balance sheet and growth outlook led Directors to declare a final dividend of 3.0 cents per share (fully franked for Australian shareholders). The record date for this dividend is 10 November 2022, and the payment date is 25 November 2022.

Becoming a leader in ESG

Commenting on the Group's sustainability initiatives, Mr Daly said: "Being a leader in ESG is one of the core pillars of our growth strategy, enabling us to deliver positive growth that's good for our people and the communities we operate in."

"We have now submitted B Corp applications for all of our brands, and we put in place 2030 emission reduction goals aligned with the Paris Climate agreement."

"Kathmandu was recognised with multiple awards for environmental and product innovation, including the Deloitte New Zealand Top 200 Sustainable Business Leadership award, and Outdoor Retailer and ISPO awards for its new BioDown jacket. The BioDown is an industry-first biodegradable down-filled jacket, demonstrating breakthrough sustainability innovation."

"Rip Curl recycled around 2,500 wetsuits in Australia by implementing a wetsuit takeback programme with TerraCycle. Oboz's One More Tree initiative has seen over 4 million trees planted since it began in 2007, and the product design process is now fully digital, reducing material waste."

Positive start to FY23 and outlook

Commenting on the outlook for the Group, Mr Daly said:

"The momentum from the strong final quarter of FY22 has continued. August sales for the Group were up 44.2% on August 2021, and 10.3% above pre-COVID August 2019. We are cycling COVID lockdowns in the first quarter last year, with August underlying EBITDA c. $10 million above last year."

"With the return of international travel and uninterrupted trade, combined with further strengthening our Rip Curl, Kathmandu and Oboz brands, KMD Brands is well positioned to deliver continued sales and earnings growth in FY23."

"Key growth factors in FY23 include strong wholesale demand for Rip Curl, post-COVID tourism and footfall increases, as well as further wholesale expansion to Europe and Canada for Kathmandu; and with Oboz supply challenges now addressed, we can capitalise on record demand for its products."

"Heading into FY23, The Group is well capitalised and I'm excited by the opportunities ahead as we invest in the long-term expansion of our global house of brands, and build a truly unique global business headquartered in Australia and New Zealand."

Investor briefing being held today @ 8:30am AEST / 10:30am NZST

Michael Daly (Group CEO & Managing Director) and Chris Kinraid (Group CFO) will be holding a briefing session for investors and analysts at 8:30am AEST / 10:30am NZST today

(Tuesday 20 September). To pre-register and avoid a queue when calling, please follow this link:

https://event.webcasts.com/starthere.jsp?ei=1567475&tp_key=9b518569b6

If you are unable to pre-register, at the time of the call please dial one of the numbers below and provide the **Participant Code 648518** to the operator.

Australia Toll Free:	1800 590 693
Australia Local:	+61 (0) 2 7250 5438
New Zealand Toll Free:	0800 423 972
New Zealand Local:	+64 (0) 9 9133 624
United States:	+1 323 794 2558

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

\- ENDS -

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KMD Brands Limited

CONSOLIDATED FINANCIAL STATEMENTS

31 July 2022

Introduction and Table of Contents

In this section …

The consolidated financial statements have been presented in a style which attempts to make them less complex and more relevant to shareholders. We have grouped the note disclosures into six sections: 'Basis of Preparation', 'Results for the Year', 'Operating Assets and Liabilities', 'Capital Structure and Financing Costs', 'Group Structure' and 'Other Notes'. Each section sets out the accounting policies applied in producing the relevant notes. The purpose of this format is to provide readers with a clearer understanding of what drives financial performance of the Group. The aim of the text boxes is to provide commentary on each section or note, in plain English.

Keeping it simple …

Notes to the consolidated financial statements provide information required by accounting standards or NZX Listing Rules to explain a particular feature of the financial statements. The notes that follow will also provide explanations and additional disclosures to assist readers' understanding and interpretation of the annual report and the financial statements.

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Directors' Approval of Consolidated Financial Statements For the Year Ended 31 July 2022

Authorisation for Issue

The Board of Directors authorised the issue of these Consolidated Financial Statements on 20 September 2022.

Approval by Directors

The Directors are pleased to present the Consolidated Financial Statements of KMD Brands Limited for the year ended 31 July 2022 on pages 4 to 52.

David Kirk	20 September 2022 *Date*
Michael Daly	20 September 2022 *Date*

For and on behalf of the Board of Directors

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Consolidated Statement of Comprehensive Income
For the Year Ended 31 July 2022

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	Section	2022 NZ$'000	2021 NZ$'000 Restated
Sales	2.2	979,802	922,792
Cost of sales		(403,069)	(381,170)
Gross profit		576,733	541,622
Other income	2.2	9,857	29,165
Selling expenses		(231,460)	(217,115)
Administration and general expenses	1.4	(175,196)	(149,410)
		(396,799)	(337,360)
Earnings before interest, tax, depreciation, and amortisation		**179,934**	**204,262**
Depreciation and amortisation	1.4, 3.2-3.4	(112,516)	(114,972)
Earnings before interest and tax		**67,418**	**89,290**
Finance income		394	834
Finance expenses		(14,187)	(17,311)
Finance costs (net)	4.1.1	(13,793)	(16,477)
Profit before income tax		**53,625**	**72,813**
Income tax expense	1.4, 2.3	(16,797)	(11,468)
Profit after income tax		**36,828**	**61,345**
Profit for the year attributable to:			
Shareholders of the Company		35,952	60,982
Non-controlling interest		876	363
Other comprehensive income / (expense) that may be recycled through profit or loss:			
Movement in cash flow hedge reserve	4.3.2	12,671	559
Movement in foreign currency translation reserve	4.3.2	36,188	(17,527)
Movement in other reserves	4.3.2	-	14
Other comprehensive income / (expense) for the year, net of tax		**48,859**	**(16,954)**
Total comprehensive income for the year		**85,687**	**44,391**
Total comprehensive income for the year attributable to:			
Shareholders of the Company		84,576	44,111
Non-controlling interest		1,111	280
Basic earnings per share	1.4, 2.4	5.1cps	8.6cps
Diluted earnings per share	1.4, 2.4	5.0cps	8.6cps
Weighted average basic ordinary shares outstanding ('000)	2.4	709,001	709,001
Weighted average diluted ordinary shares outstanding ('000)	2.4	717,266	713,006

Consolidated Statement of Changes in Equity
For the Year Ended 31 July 2022

	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
		Restated				Restated		Restated
Balance as at 31 July 2020	**626,380**	**(5,141)**	**(12,018)**	**608**	**(61)**	**163,603**	**4,007**	**777,378**
Profit after tax	-	-	-	-	-	60,982	363	61,345
Other comprehensive income	-	559	(17,444)	-	14	-	(83)	(16,954)
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
Amounts transferred to initial carrying amount of hedged items	-	5,923	-	-	-	-	-	5,923
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)**	**210,036**	**4,070**	**814,955**
Profit after tax	-	-	-	-	-	35,952	876	36,828
Other comprehensive income	-	12,671	35,953	-	-	-	235	48,859
Dividends paid	-	-	-	-	-	(42,540)	-	(42,540)
Issue of share capital	-	-	-	-	-	-	-	-
Share based payment expense	-	-	-	914	-	-	-	914
Lapsed share options	-	-	-	(77)	-	77	-	-
Deferred tax on share-based payment transactions	-	-	-	(309)	-	-	-	(309)
Amounts transferred to initial carrying amount of hedged items	-	(7,794)	-	-	-	-	-	(7,794)
Dividends paid to non-controlling interest	-	-	-	-	-	-	(455)	(455)
Balance as at 31 July 2022	**626,380**	**6,218**	**6,491**	**3,165**	**(47)**	**203,525**	**4,726**	**850,458**

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Consolidated Balance Sheet
As at 31 July 2022

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	Section	2022 NZ$'000	2021 NZ$'000 Restated
ASSETS			
Current assets			
Cash and cash equivalents	3.1.2	70,810	142,614
Trade and other receivables	1.4, 3.1.3	105,526	70,062
Inventories	3.1.1	295,522	216,545
Derivative financial instruments	4.2	9,936	5,285
Current tax asset		3,640	3,430
Other current assets	3.1.5	2,434	2,320
Total current assets		**487,868**	**440,256**
Non-current assets			
Trade and other receivables	3.1.3	1,588	1,549
Property, plant and equipment	3.2	79,243	79,284
Intangible assets	1.4, 3.3	719,322	682,009
Deferred tax assets	1.4, 2.3	14,078	15,492
Right-of-use assets	3.4.1	250,372	242,677
Total non-current assets		**1,064,603**	**1,021,011**
Total assets		**1,552,471**	**1,461,267**
LIABILITIES			
Current liabilities			
Trade and other payables	3.1.6	194,034	149,206
Derivative financial instruments	4.2	-	1,079
Current tax liabilities		1,816	10,159
Lease liabilities	3.4.2	75,293	75,572
Total current liabilities		**271,143**	**236,016**
Non-current liabilities			
Trade and other payables	3.1.6	17,246	14,818
Interest bearing liabilities	4.1	110,881	105,597
Deferred tax liabilities	2.3	93,449	86,182
Lease liabilities	3.4.2	209,294	203,699
Total non-current liabilities		**430,870**	**410,296**
Total liabilities		**702,013**	**646,312**
Net assets		**850,458**	**814,955**
EQUITY			
Contributed equity - ordinary shares	4.3.1	626,380	626,380
Reserves	4.3.2	15,827	(25,531)
Retained earnings	1.4	203,525	210,036
Non-controlling interest		4,726	4,070
Total equity		**850,458**	**814,955**

Consolidated Statement of Cash Flows
For the Year Ended 31 July 2022

	Section	2022 NZ$'000	2021 NZ$'000 Restated
Cash flows from operating activities			
Cash was provided from:			
Receipts from customers		955,968	920,374
Government grants received		3,407	23,892
Interest received		394	834
Income tax received		448	1,050
		960,217	946,150
Cash was applied to:			
Payments to suppliers and employees	1.4	843,605	727,582
Income tax paid		22,181	24,987
Interest paid		12,623	15,435
		878,409	768,004
Net cash inflow from operating activities		**81,808**	**178,146**
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		4	2
		4	2
Cash was applied to:			
Purchase of property, plant and equipment	3.2	21,567	15,044
Purchase of intangible assets	1.4, 3.3	11,266	15,583
Acquisition of subsidiaries		-	1,029
		32,833	31,656
Net cash (outflow) from investing activities		**(32,829)**	**(31,654)**
Cash flows from financing activities			
Cash was provided from:			
Proceeds from borrowings		99,619	-
		99,619	-
Cash was applied to:			
Dividends paid		42,995	14,180
Repayment of borrowings		99,619	128,894
Repayment of lease liabilities		82,265	89,749
		224,879	232,823
Net cash (outflow) from financing activities		**(125,260)**	**(232,823)**
Net (decrease) in cash and cash equivalents held		**(76,281)**	**(86,331)**
Opening cash and cash equivalents		142,614	231,885
Effect of foreign exchange differences		4,477	(2,940)
Closing cash and cash equivalents	3.1.2	**70,810**	**142,614**

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Reconciliation of net profit after taxation with cash inflow from operating activities

	Section	2022 NZ$'000	2021 NZ$'000 Restated
Profit after taxation		36,828	61,345
Movement in working capital:			
(Increase) / decrease in trade and other receivables		(27,953)	4,472
(Increase) / decrease in inventories		(66,555)	8,190
(Increase) / decrease in other current assets		9	431
Increase / (decrease) in trade and other payables		31,736	3,504
Increase / (decrease) in current tax liability		(8,518)	398
		(71,281)	16,995
Add non-cash items:			
Depreciation of property, plant and equipment	3.2	22,572	20,851
Amortisation of intangibles	3.3	12,339	7,739
Depreciation of right-of-use assets	3.4.1	77,605	86,382
Impairment of assets	3.2, 3.4.1	940	1,910
Paycheck Protection Program (PPP) loan forgiveness	4.1	-	(4,025)
Foreign currency translation of working capital balances		(2,294)	(3,319)
Increase / (decrease) in deferred taxation		3,580	(12,867)
Employee share-based remuneration	6.3	914	1,798
Loss on sale of property, plant and equipment and intangibles	3.2, 3.3	605	1,337
		116,261	99,806
Cash inflow from operating activities		**81,808**	**178,146**

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Notes to the Consolidated Financial Statements

Section 1: Basis of Preparation

In this section …

This section sets out the Group's accounting policies that relate to the consolidated financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

1.1 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, Central Christchurch, Christchurch.

The Company is listed on the NZX and ASX.

The consolidated financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Listing Rules.

These audited consolidated financial statements have been approved for issue by the Board of Directors on 20 September 2022.

1.2 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Practice. They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for for-profit entities. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

The consolidated financial statements are presented in New Zealand dollars, which is the Group's presentation currency.

1.2.1 Basis of preparation

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of consolidation

The consolidated financial statements reported are for the consolidated Group, which is the economic entity comprising KMD Brands Limited and its subsidiaries.

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

Subsidiaries are consolidated from the date on which control is obtained to the date on which control is lost.

Non-controlling interests are measured at their proportionate share of the acquiree's identified net assets at the acquisition date. Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

In preparing the consolidated financial statements, all material intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

Historical cost convention

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets as identified in the specific accounting policies provided below.

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Critical accounting estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Further explanation as to estimates and assumptions made by the Group can be found in the following notes to the consolidated financial statements:

Area of estimation	Section
Goodwill and brand – assumptions underlying recoverable value	3.3

Foreign currency translation

The results and financial position of all the Group entities (none of which have the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity.

Changes in accounting policies and prior period restatements

Details about changes in accounting policies applied during the period are included in the following notes to the financial statements:

	Section
Impact of change in accounting policy	1.4
New standards and interpretations first applied in the period	6.8

Other comprehensive income

Other comprehensive income reported in the consolidated statement of comprehensive income for the year ended 31 July 2021 has been restated to remove the component of cash flow hedge reserve which was transferred to the initial carrying value of the hedged items as separately disclosed in the statement of changes in equity ($5,923,000). The restatement is limited to the statement of changes in equity and other comprehensive income and has no impact on profit, cash flow or the balance sheet of the Group.

Use of non-GAAP disclosures

At times non-GAAP disclosures have been used in the consolidated financial statements. These disclosures have been included as they are key measurement criteria on which the Group and operating segments are reviewed by the Group Chief Executive Officer, Group Executive Management team and the Board of Directors. The following non-GAAP measures are relevant to the understanding of the Group's financial performance:

- Earnings before interest, tax, depreciation and amortisation (EBITDA) represents earnings before income taxes excluding interest income, interest expense, depreciation, and amortisation, as reported in the financial statements.
- Earnings before interest and tax (EBIT) represents EBITDA less depreciation and amortisation.
- Net debt represents cash and cash equivalents less interest-bearing liabilities. Net debt does not include lease liabilities.

Non-GAAP financial information does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. The non-GAAP information within the consolidated financial statements is subject to audit.

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1.3 Impact of COVID-19

COVID-19 has continued to have an impact on the Group, with local and global restrictions on movement, travel and gatherings resulting in a sustained reduction in footfall. Stores across Australia and New Zealand were significantly impacted by government mandated lockdowns and closures during the first quarter.

There continues to be uncertainties due to the COVID-19 pandemic that may affect the Group's ability to achieve future forecasts and the consequential impacts on the carrying value of goodwill and other finite life intangible assets (note 3.3).

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 year and, based on the current cash flow forecasts, the Group expects to remain compliant with all covenants for at least 12 months from the date of approving the consolidated financial statements.

Taking into consideration the current trading results, the net debt of $40,071,000 (2021: net cash $37,017,000) and undrawn cash facilities of $195,290,000 (2021: $187,115,000) as at 31 July 2022 (note 4.1), the financial statements continue to be prepared on a going concern basis.

1.4 Impact of change in accounting policy

During the year ended 31 July 2022 the Group revised its accounting policy in relation to configuration and customisation costs incurred in implementing Software-as-a-Service (SaaS) cloud computing arrangements.

This was in response to the IFRIC agenda decision, issued in April 2021, clarifying its interpretation of how current accounting standards apply to these types of 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, unless the criteria for recognising a separate intangible asset that the Group controls are met. If the costs to customise the software are significant and not distinct from the underlying use of the SaaS software, they are expensed over the SaaS contract term.

The Group's previous accounting policy was 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 revised accounting policy is included in note 3.3.

As a result of the change in this accounting policy the Group has restated the prior period financial statements. A summary of the impact of the change in accounting policy on the Group's consolidated financial statements is provided below.

	Previously reported NZ$'000	Change in accounting policy NZ$'000	Restated NZ$'000
Consolidated Statement of Comprehensive Income			
Year ended 31 July 2021			
Administration and general expenses	(145,641)	(3,769)	(149,410)
Depreciation and amortisation	(115,847)	875	(114,972)
Profit before income tax	75,707	(2,894)	72,813
Income tax expense	(12,278)	810	(11,468)
Profit after income tax	63,429	(2,084)	61,345
Basic earnings per share	8.9cps	(0.3cps)	8.6cps
Diluted earnings per share	8.8cps	(0.2cps)	8.6cps

	Previously reported NZ$'000	Change in accounting policy NZ$'000	Restated NZ$'000
Consolidated Balance Sheet			
As at 1 August 2020			
Intangible assets	689,935	(2,517)	687,418
Deferred tax assets	5,380	705	6,085
Total assets	1,587,405	(1,812)	1,585,593
Retained earnings	165,415	(1,812)	163,603
Total equity	779,190	(1,812)	777,378
As at 31 July 2021			
Current trade and other receivables	68,931	1,131	70,062
Intangible assets	688,551	(6,542)	682,009
Deferred tax assets	13,977	1,515	15,492
Total assets	1,465,163	(3,896)	1,461,267
Retained earnings	213,932	(3,896)	210,036
Total equity	818,851	(3,896)	814,955
Consolidated Statement of Cash Flows			
Year ended 31 July 2021			
Payments to suppliers and employees	722,656	4,926	727,582
Net cash inflow from operating activities	183,072	(4,926)	178,146
Purchase of intangibles	20,509	(4,926)	15,583
Net cash (outflow) from investing activities	(36,580)	4,926	(31,654)

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Section 2: Results for the Year

In this section …

This section focuses on the results and performance of the Group. On the following pages you will find disclosures explaining the Group's results for the year, segmental information, taxation and earnings per share.

2.1 Segment information

An operating segment is a component of an entity that engages in business activities that earns revenue and incurs expenses and where the chief decision maker reviews the operating results on a regular basis and makes decisions on resource allocation.

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

These segments have changed from those reported as at 31 July 2021 to reflect changes in the Group's internal organisation and reporting, and to include the Software-as-a-Service restatement described in note 1.4. Comparative information has been restated accordingly.

Rip Curl – designer, manufacturer, wholesaler and retailer of surfing equipment and apparel.

Kathmandu – designer, retailer, and wholesaler of apparel, footwear, and equipment for outdoor travel and adventure.

Oboz – designer, wholesaler and online retailer of 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.

31 July 2021 – Restated	**Rip Curl NZ$'000**	**Kathmandu NZ$'000**	**Oboz NZ$'000**	**Corporate NZ$'000**	**Total NZ$'000**
Total segment sales	490,439	357,363	78,350	-	926,152
Sales to internal customers	-	-	3,360	-	3,360
Sales to external customers	**490,439**	**357,363**	**74,990**	**-**	**922,792**
EBITDA	**103,441**	**94,958**	**11,830**	**(5,967)**	**204,262**
Depreciation and amortisation	(49,895)	(64,497)	(575)	(5)	(114,972)
EBIT	**53,546**	**30,461**	**11,255**	**(5,972)**	**89,290**
Income tax expense	(2,286)	(10,335)	(2,885)	4,038	(11,468)
Total segment assets	**651,938**	**665,724**	**136,158**	**7,447**	**1,461,267**
Total assets include:					
Non-current assets	435,245	480,554	105,195	17	1,021,011
Additions to non-current assets	53,458	51,645	2,357	21	107,481
Total segment liabilities	**261,204**	**262,455**	**18,769**	**103,884**	**646,312**

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31 July 2022	Rip Curl NZ$'000	Kathmandu NZ$'000	Oboz NZ$'000	Corporate NZ$'000	Total NZ$'000
Total segment sales	536,830	381,628	62,298	-	980,756
Sales to internal customers	-	-	954	-	954
Sales to external customers	**536,830**	**381,628**	**61,344**	**-**	**979,802**
EBITDA	**95,462**	**87,642**	**3,641**	**(6,811)**	**179,934**
Depreciation and amortisation	(48,700)	(62,555)	(1,255)	(6)	(112,516)
EBIT	**46,762**	**25,087**	**2,386**	**(6,817)**	**67,418**
Income tax expense	(11,839)	(7,017)	(772)	2,831	(16,797)
Total segment assets	**740,778**	**649,205**	**158,793**	**3,695**	**1,552,471**
Total assets include:					
Non-current assets	465,152	482,873	116,578	-	1,064,603
Additions to non-current assets	55,629	55,159	975	-	111,763
Total segment liabilities	**293,804**	**270,479**	**26,843**	**110,887**	**702,013**

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

Sales to external customers by region

	2022 NZ$'000	2021 NZ$'000
Australia	508,258	477,054
New Zealand	113,943	120,746
North America	195,713	195,317
Europe	99,747	90,418
Rest of world	62,141	39,257
	979,802	922,792

Sales to external customers by channel

	2022 NZ$'000	2021 NZ$'000
Retail	555,732	538,610
Online	109,556	92,017
Wholesale	302,101	282,517
Licensing	12,000	9,037
Other	413	611
	979,802	922,792

Non-current assets by region

	2022 NZ$'000	2021 NZ$'000 Restated
Australia	668,544	654,760
New Zealand	180,066	176,634
North America	180,334	162,273
Europe	21,893	15,765
Rest of world	13,766	11,579
	1,064,603	1,021,011

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2.2 Profit before tax

Revenue recognition

The Group recognises revenue from the sale of footwear, clothing and equipment for surfing and the outdoors, and brand licencing arrangements. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and brand licences, excluding Goods and Services Tax and discounts, and after eliminating sales within the Group.

Retail sales

For sales of goods to retail customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at a retail outlet. Payment of the transaction price is due immediately at the point the customer purchases the goods.

Online sales

For online sales, revenue is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been shipped to the customer's specific location. When the customer initially purchases the goods online, the transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer.

Wholesale sales

For sales to the wholesale market, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location (delivery). Following delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the wholesaler as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Sales returns

Under the Group's standard contract terms, customers have a right of return, typically within 30 days. At the point of sale, a returns liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. Given the consistent level of returns over previous years, it is considered highly unlikely that a significant reversal in the cumulative revenue recognised will occur.

Royalty revenue

Royalty revenue from brand license arrangements is related to the provision of a right to access the license. Revenue from sales-based royalties is recognised based on a reliable estimate of subsequent sales made by a licensee.

	2022 NZ$'000	2021 NZ$'000
Sale of goods	969,161	915,570
Royalty revenue	10,047	6,950
Commission revenue	594	272
	979,802	922,792

A breakdown of revenue by operating segment, sales channel and geographical area is provided in note 2.1.

Other income

	2022 NZ$'000	2021 NZ$'000
Government grants	9,060	27,918
Other	797	1,247
	9,857	29,165

Government grants are not recognised until there is reasonable assurance that the grants will be received and that the Group will comply with the conditions attached to them. Government grants that compensate the Group for expenses incurred are recognised as revenue in the statement of comprehensive income on a systematic basis in the same period in which the expenses are recognised. In the current period Government grants relate to US Employee Retention Credits, wage and other subsidies received in response to the impact of COVID-19 and Apprenticeship Boost payments.

Government grants of $5,652,000 (2021: nil) relating to the current year are receivable at balance date and have been included in other receivables in note 3.1.3.

In the prior year $4,025,000 of government grants income recognised related to US Paycheck Protection Program loans as disclosed in note 4.1. No further amounts have been recognised as income in the current period in respect of these loans.

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Employee entitlements

	2022 NZ$'000	2021 NZ$'000
Wages, salaries, and other short-term benefits	189,864	187,700
Post-employment benefits	10,483	9,692
Employee share-based remuneration	914	1,798
	201,261	199,190

Lease expense

The Group is a lessee. Refer to note 3.4 for further details around the Group's leases and lease accounting policies.

Lease amounts recognised in the consolidated statement of comprehensive income:

	2022 NZ$'000	2021 NZ$'000
Short-term lease expense	7,987	4,398
Low-value lease expense	546	378
Variable lease expense	754	(431)
Rent concessions and abatements	(3,588)	(7,306)
Lease outgoings	15,423	12,938
Depreciation right-of-use asset (note 3.4.1)	77,605	86,382
Interest expense related to lease liabilities (note 3.4.2)	8,476	8,879
	107,203	105,238

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

Overall, the variable payments constitute up to 0.7% (2021: 0.4%) of the Group's entire lease payments. The variable payments depend on sales and consequently on the overall economic development over the next few years. Considering the development of sales expected over the next 3 years, variable rent expenses are expected to continue to present a similar proportion of store sales in future years.

The Group has adopted the practical expedient in paragraph 46A of NZ IFRS 16 and elected not to account for any rent concessions granted as a result of the COVID-19 pandemic as a lease modification. The amounts are recognised in profit or loss due to changes in lease payments arising from such concessions, within the selling, administration, and general expenses in the consolidated statement of comprehensive income.

The total cash outflow for leases amounts to $109,163,000 (2021: $121,291,000).

2.3 Taxation

Keeping it simple …

This section lays out the tax accounting policies, the current and deferred tax charges or credits in the year (which together make up the total tax charge or credit in the consolidated statement of comprehensive income), a reconciliation of profit before tax to the tax charge and the movements in deferred tax assets and liabilities. The Group is subject to income taxes in multiple jurisdictions. As a result there is complexity and judgement involved in determining the worldwide provision for income taxes.

Accounting policies

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax liability is not recognised if it arises from the initial recognition of goodwill. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Goods and Services Tax (GST)

The consolidated statement of comprehensive income and the consolidated statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the consolidated balance sheet are stated net of GST, except for receivables and payables, which include GST invoiced.

Taxation – Consolidated statement of comprehensive income

The total taxation charge in the consolidated statement of comprehensive income is analysed as follows:

	2022 NZ$'000	2021 NZ$'000 Restated
Current income tax charge	13,354	24,334
Deferred income tax charge / (credit)	3,443	(12,866)
Income tax charge reported in the consolidated statement of comprehensive income	16,797	11,468

To understand how, in the consolidated statement of comprehensive income, a tax charge of $16,797,000 (Restated 2021: $11,468,000) arises on profit before income tax of $53,625,000 (Restated 2021: $72,813,000), the taxation charge that would arise at the standard rate of New Zealand corporate tax is reconciled to the actual tax charge as follows:

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	2022 NZ$'000	2021 NZ$'000 Restated
Profit before income tax	53,625	72,813
Income tax calculated at 28%	15,015	20,388
Adjustments to taxation:		
Adjustments due to different rate in different jurisdictions	999	1,608
Non-taxable income	(2,025)	(2,537)
Expenses not deductible for tax purposes	2,901	2,973
Utilisation of tax losses by group companies	43	(1,362)
Tax expense transferred to foreign currency translation	-	(811)
Adjustments in respect of prior years	(136)	787
Historic tax losses and deferred tax assets recognised	-	(9,578)
Income tax charge reported in the consolidated statement of comprehensive income	16,797	11,468

Adjustments for prior periods primarily arise where an outcome is obtained on certain tax matters which differs from expectations held when the related provision was made. Where the outcome is more favourable than the provision made, the difference is released, lowering the current year tax charge. Where the outcome is less favourable than the provision, an additional charge to the current year tax will occur.

During the year the Group did not recognise any previously unrecognised tax losses (2021: $9,578,000).

The tax credit / (charge) relating to components of other comprehensive income is as follows:

	2022 NZ$'000	2021 NZ$'000
Movement in cash flow hedge reserve before tax	13,298	5,685
Tax credit / (charge) relating to cash flow hedge reserve	(627)	(5,126)
Movement in cash flow hedge reserve after tax	12,671	559
Foreign currency translation reserve before tax	36,188	(17,527)
Tax credit / (charge) relating to foreign currency translation reserve	-	-
Movement in foreign currency translation reserve after tax	36,188	(17,527)
Other reserves before tax	-	14
Tax credit / (charge) relating to other reserves	-	-
Movement in other reserves after tax	-	14
Total other comprehensive income / (expense) before tax	49,486	(11,828)
Total tax credit / (charge) on other comprehensive income	(627)	(5,126)
Total other comprehensive income / (expense) after tax	48,859	(16,954)
Current tax	-	-
Deferred tax	(627)	(5,126)
Total tax credit / (charge) on other comprehensive income	(627)	(5,126)

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Taxation – Balance sheet

The following are the major deferred taxation liabilities and assets recognised by the Group and movements thereon during the current and prior year:

	Employee obligations	Intangibles	Leases	Other temporary differences	Reserves	Tax losses	Total
	NZ$'000	NZ$'000	NZ$'000	NZ$'000 Restated	NZ$'000	NZ$'000	NZ$'000 Restated
As at 31 July 2020	3,493	(115,887)	11,247	17,924	2,907	-	(80,316)
Recognised in the consolidated statement of comprehensive income	1,243	1,401	1,695	1,449	-	7,078	12,866
Recognised in other comprehensive income	-	-	-	-	(5,126)	-	(5,126)
Recognised directly in equity	289	-	-	-	-	-	289
Foreign exchange	(67)	2,258	(202)	(300)	27	(119)	1,597
As at 31 July 2021	4,958	(112,228)	12,740	19,073	(2,192)	6,959	(70,690)
Recognised in the consolidated statement of comprehensive income	570	1,682	(893)	(5,544)	-	742	(3,443)
Recognised in other comprehensive income	-	-	-	-	(627)	-	(627)
Recognised directly in equity	(309)	-	-	-	-	-	(309)
Foreign exchange	187	(5,753)	496	536	(111)	343	(4,302)
As at 31 July 2022	5,406	(116,299)	12,343	14,065	(2,930)	8,044	(79,371)

The deferred tax balance relates to:

- Property, plant and equipment temporary differences arising on differences in accounting and tax depreciation rates
- Employee benefit accruals
- Brands and customer relationships
- Unrealised foreign exchange gain / loss on intercompany loans
- Realised gain / loss on foreign exchange contracts not yet charged in the consolidated statement of comprehensive income
- Lease accounting
- Inventory provisioning
- Temporary differences on the unrealised gain / loss in hedge reserve
- Employee share schemes
- Historic tax losses recognised
- Other temporary differences on miscellaneous items

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2022	2021
	NZ$'000	NZ$'000
Deductible temporary differences	-	-
Tax losses	3,879	5,548
	3,879	5,548

The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of overseas subsidiaries where it is not yet probable that future taxable profit will be generated in those territories to utilise these benefits.

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Imputation credits

	2022 NZ$'000	2021 NZ$'000
Imputation credits available for use in subsequent reporting periods based on a tax rate of 28%	75	66

The above amounts represent the balance of the imputation account as at 31 July 2022, adjusted for:

- Imputation credits that will arise from the payment of the amount of the provision for income tax.
- Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date.
- Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The balance of Australian franking credits able to be used by the Group in subsequent periods as at 31 July 2022 is A$7,497,000 (2021: A$11,502,000).

2.4 Earnings per share

Keeping it simple …

Earnings per share ('EPS') is the amount of post-tax profit attributable to each share.
Basic EPS is calculated by dividing the profit after tax attributable to equity holders of the Company of $35,952,000 (Restated 2021: $60,982,000) by the weighted average number of ordinary shares in issue during the year of 709,001,384 (2021: 709,001,384).

Diluted EPS reflects any commitments the Group has to issue shares in the future that would decrease EPS. In the current year, these are in the form of share options / performance rights. To calculate the impact, it is assumed that all share options are exercised / performance rights taken, and therefore, adjusting the weighted average number of shares.

	2022 '000	2021 '000
Weighted average number of basic ordinary shares in issue	709,001	709,001
Adjustment for:		
Share options / performance rights	8,265	4,005
	717,266	713,006

Section 3: Operating Assets and Liabilities

In this section …

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are addressed in Section 4. Deferred tax assets and liabilities are shown in note 2.3.

Keeping it simple …

Working capital represents the assets and liabilities the Group generates through its trading activity. The Group therefore defines working capital as inventory, cash, trade and other receivables, other financial assets, other current assets and trade and other payables and other financial liabilities.

3.1 Working capital

3.1.1 Inventory

Accounting policies

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventory is considered in transit when the risk and rewards of ownership have transferred to the Group.

The Group assesses the likely residual value of inventory. Inventory provisions are recognised for inventory that is expected to sell for less than cost, and for the value of inventory likely to have been lost to the business through shrinkage between the date of the last applicable stocktake and balance sheet date. In recognising the provision for inventory, judgement has been applied by considering a range of factors including historical results, stock shrinkage trends and product lifecycle.

Inventory is broken down into trading stock and goods in transit below:

	2022 NZ$'000	2021 NZ$'000
Raw materials and consumables	4,563	3,297
Work in progress	3,377	1,324
Trading inventory	251,043	189,221
Goods in transit	36,539	22,703
	295,522	216,545

Inventory has been reviewed for obsolescence and a provision of $5,849,000 (2021: $5,393,000) has been made.

3.1.2 Cash and cash equivalents

	2022 NZ$'000	2021 NZ$'000
Cash on hand	446	489
Cash at bank	68,806	140,617
Short term investments convertible to cash	1,558	1,508
	70,810	142,614

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The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

	2022 NZ$'000	2021 NZ$'000
AUD	18,175	82,056
USD	17,810	27,350
EUR	15,746	10,455
THB	5,122	3,241
NZD	4,010	9,626
IDR	3,806	2,852
BRL	2,100	2,112
GBP	1,234	1,897
CAD	1,502	1,476
Other currencies	1,305	1,549
	70,810	142,614

3.1.3 Trade and other receivables

Accounting policies

Trade and other receivables are recognised initially at the value of the invoice sent to the customer (fair value) and subsequently at the amounts considered recoverable (amortised cost). The collectability of trade and other receivables is reviewed on an on-going basis.

An allowance for lifetime expected credit losses is recognised for trade and other receivables based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

	2022 NZ$'000	2021 NZ$'000 Restated
Current		
Trade receivables	87,626	61,084
Allowance for expected credit losses	(5,964)	(5,680)
Prepayments	12,928	8,830
Other receivables	10,936	5,828
	105,526	70,062
Non-current		
Other debtors	1,588	1,549
	1,588	1,549

Other non-current debtors include debtors on extended credit terms and security deposits paid in relation to store leases.

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The carrying amount of the Group's trade and other receivables are denominated in the following currencies:

	2022 NZ$'000	2021 NZ$'000 Restated
USD	56,539	30,551
EUR	11,950	11,449
AUD	11,375	12,858
NZD	6,750	3,123
THB	5,977	3,125
BRL	4,950	3,645
CAD	4,882	2,402
GBP	3,045	2,163
IDR	895	1,122
JPY	631	1,173
Other currencies	120	-
	107,114	71,611

Allowance for expected credit losses

	2022 NZ$'000	2021 NZ$'000
Opening balance	(5,680)	(10,329)
Additional allowance recognised in the consolidated statement of comprehensive income	(2,171)	(3,104)
Receivables written-off during the year	484	5,186
Unused provision released to the consolidated statement of comprehensive income during the year	1,751	2,173
Foreign exchange	(348)	394
Closing balance	(5,964)	(5,680)

3.1.4 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Risk	Exposure arising from	Monitoring	Management
Credit risk	Cash and cash equivalents Trade and other receivables Derivative financial instruments	Credit ratings Aging analysis Review of exposure with regular terms of trade	Obtaining customer credit rating information Confirming references Setting appropriate credit limits

Exposure to credit risk

The below balances are recorded at their carrying amount after any allowance for expected credit loss on these financial instruments. The maximum exposure to credit risk at reporting date was (carrying amount):

	2022 NZ$'000	2021 NZ$'000
Cash and cash equivalents	70,364	142,125
Trade receivables (net)	81,662	55,404
Other receivables	11,220	7,158
Derivative financial instruments	9,936	4,206
	173,182	208,893

As at balance sheet date the carrying amount is considered to approximate fair value for each of the financial instruments.

The credit quality of cash and cash equivalents can be assessed by reference to external credit ratings, such as Standard & Poors or Moody's (if available) or to historical information about counterparty default rates:

	2022 NZ$'000	2021 NZ$'000
Cash and cash equivalents:		
Standard & Poors - AA-	29,148	104,885
Standard & Poors - A+	14,114	25,919
Standard & Poors - A	599	1,768
Standard & Poors - A-	1,709	197
Standard & Poors - BBB+	14,256	3,359
Standard & Poors - BBB	6,986	
Standard & Poors - BBB-	-	2,912
Standard & Poors - BB	1,456	978
Standard & Poors - BB-	2,096	2,107
	70,364	142,125

Trade and other receivables consist of a large number of customers spread across diverse geographical regions, which reduces credit risk.

As at balance sheet date, trade and other receivables of $28,737,000 (2021: $15,931,000) were past due. A provision of $5,964,000 (2021: $5,680,000) is held against these overdue amounts. This provision is based on expected life time credit losses, taking into account historic loss rates, age of the outstanding balances, customer payment history and any arrangements, leverage or security in place with the customer. Interest is charged on overdue debtors in some instances.

The ageing analysis of these past due trade receivables is:

	2022 NZ$'000	2021 NZ$'000
0 to 30 days	11,637	5,301
30 to 60 days	4,412	2,926
60 to 90 days	4,625	2,311
90 days and over	8,063	5,393
	28,737	15,931

The Group considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations in full, without recourse by the Group. The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

3.1.5 Other assets

Accounting policies

Other assets relate to rights of return assets. Rights of return recognises the estimated returned sales under the Group's returns policies. Management estimates the returned sales based on historical sales return information and any recent trends that may suggest future claims could differ from historical amounts. For sales that are expected to be returned, the Group recognises a returns provision as disclosed in note 3.1.6. The associated inventory value for sales that are expected to be returned is recognised as a right of return asset. The costs to recover the products are not material because the customers usually return them in a saleable condition.

	2022 NZ$'000	2021 NZ$'000
Right of return assets		
Opening balance	2,320	2,799
Additional amounts recognised	10	-
Amounts incurred and charged	(19)	(431)
Foreign exchange	123	(48)
	2,434	2,320

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3.1.6 Trade and other payables

Accounting policies

Trade payables, sundry creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Trade and other payables are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method. The carrying value of trade payables is considered to approximate fair value as amounts are unsecured and are usually paid by the 30th of the month following recognition.

Employee entitlements relates to benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required, and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

	2022 NZ$'000	2021 NZ$'000
Current		
Trade payables	102,296	72,230
Employee entitlements	25,619	27,642
Sundry creditors and accruals	56,600	42,502
Provisions	8,306	6,832
Revenue received in advance	1,213	-
	194,034	149,206
Non-current		
Employee entitlements	2,946	3,076
Provisions	11,394	11,742
Sundry creditors and accruals	2,906	-
	17,246	14,818

The carrying amount of the Group's trade and other payables are denominated in the following currencies:

	2022 NZ$'000	2021 NZ$'000
USD	81,917	47,776
AUD	71,484	68,465
NZD	25,863	17,239
EUR	15,690	15,254
THB	7,774	4,751
BRL	4,325	6,138
IDR	2,464	2,334
Other currencies	1,763	2,067
	211,280	164,024

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Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The warranties provision represents the present value of the estimated future outflow of economic benefits that will be required under the Group's obligations for warranties under local sale of goods legislation. The provision relates to wetsuits, watches and footwear and is based on estimates made from historical warranty data associated with similar products and services.

A restructuring provision is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly at balance date.

Lease restoration provision represents the present value of the estimated cost to restore leased properties to their original condition upon expiry of the lease.

Where a customer has a right to return a product within a given period, the Group recognises a returns provision for the consideration received that will be required to be refunded to customers on return of the product. The Group also recognises a right to the returned goods as disclosed in note 3.1.5.

Other provisions relate to miscellaneous amounts that meet the definition of a provision and do not relate to the other categories.

	Warranties	Restructuring	Lease restoration	Sales returns	Other	Total
	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000
Year ended 31 July 2021						
Opening balance	1,349	1,675	11,048	6,291	622	20,985
Additional provisions recognised	686	70	1,391	-	-	2,147
Provisions used during the year	(301)	(1,324)	(195)	(135)	(41)	(1,996)
Provisions re-measured during the year	-	-	(723)	(1,359)	-	(2,082)
Foreign exchange	(41)	(61)	(273)	(105)	-	(480)
Closing balance	1,693	360	11,248	4,692	581	18,574
As at 31 July 2021						
Current	1,693	360	-	4,692	87	6,832
Non-current	-	-	11,248	-	494	11,742
	1,693	360	11,248	4,692	581	18,574
Year ended 31 July 2022						
Opening balance	1,693	360	11,248	4,692	581	18,574
Additional provisions recognised	606	163	457	29	289	1,544
Provisions used during the year	(473)	(45)	-	-	(87)	(605)
Provisions re-measured during the year	-	(23)	(826)	136	-	(713)
Foreign exchange	126	(10)	515	258	11	900
Closing balance	1,952	445	11,394	5,115	794	19,700
As at 31 July 2022						
Current	1,952	445	-	5,115	794	8,306
Non-current	-	-	11,394	-	-	11,394
	1,952	445	11,394	5,115	794	19,700

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3.2 Property, plant and equipment

Keeping it simple …

The following section shows the physical assets used by the Group to operate the business, generating revenues and profits. These assets include store and office fit-out, as well as equipment used in sales and support activities.

Assets are recognised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Accounting policies

Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains / losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

The assets' residual value and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Capital work in progress is not depreciated until available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Depreciation

Depreciation of property, plant and equipment is calculated using straight line and diminishing value methods to expense the cost of the assets over their useful lives. The rates are as follows:

Buildings	5 – 10%
Leasehold improvements	5 – 50%
Office, plant and equipment	5 – 50%
Furniture and fittings	10 – 50%
Computer equipment	10 – 50%

Impairment of assets

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

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Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	Land & buildings NZ$'000	Leasehold improvements NZ$'000	Office, plant & equipment NZ$'000	Furniture & fittings NZ$'000	Computer equipment NZ$'000	Total NZ$'000
As at 31 July 2020						
Cost	9,722	95,149	45,612	99,855	20,251	270,589
Accumulated depreciation	(4,095)	(63,383)	(30,516)	(68,072)	(16,065)	(182,131)
Closing net book value	5,627	31,766	15,096	31,783	4,186	88,458
Year ended 31 July 2021						
Opening net book value	5,627	31,766	15,096	31,783	4,186	88,458
Additions	63	3,752	694	7,576	2,959	15,044
Disposals	(1)	(865)	(74)	(374)	(23)	(1,337)
Depreciation	(596)	(8,369)	(1,289)	(8,978)	(1,619)	(20,851)
Impairment	-	-	-	(16)	-	(16)
Transfers between categories	52	1,228	(2,169)	771	118	-
Foreign exchange	(379)	(512)	(307)	(705)	(111)	(2,014)
Closing net book value	4,766	27,000	11,951	30,057	5,510	79,284
As at 31 July 2021						
Cost	8,691	92,270	30,130	101,699	21,175	253,965
Accumulated depreciation	(3,925)	(65,270)	(18,179)	(71,642)	(15,665)	(174,681)
Closing net book value	4,766	27,000	11,951	30,057	5,510	79,284
Year ended 31 July 2022						
Opening net book value	4,766	27,000	11,951	30,057	5,510	79,284
Additions	342	8,210	1,335	10,227	1,453	21,567
Disposals	-	(101)	(7)	(475)	(12)	(595)
Depreciation	(353)	(9,434)	(1,338)	(9,553)	(1,894)	(22,572)
Impairment	-	-	-	(12)	-	(12)
Transfers between categories	(15)	(1,426)	(20)	1,535	(74)	-
Transfers to intangibles	-	-	-	-	(1,507)	(1,507)
Foreign exchange	(105)	1,195	559	1,300	129	3,078
Closing net book value	4,635	25,444	12,480	33,079	3,605	79,243
As at 31 July 2022						
Cost	8,832	101,681	31,253	115,582	19,293	276,641
Accumulated depreciation	(4,197)	(76,237)	(18,773)	(82,503)	(15,688)	(197,398)
Closing net book value	4,635	25,444	12,480	33,079	3,605	79,243

Depreciation expense is excluded from administration and general expenses in the consolidated statement of comprehensive income.

Sale of property, plant and equipment

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of comprehensive income.

	2022 NZ$'000	2021 NZ$'000
Loss on sale of property, plant and equipment	591	1,337

Capital commitments

Capital commitments contracted for at balance sheet date include property, plant and equipment of $868,000 (2021: $4,110,000).

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3.3 Intangible assets

Keeping it simple …

The following section shows the non-physical assets used by the Group to operate the business, generating revenues and profits. These assets include brands, customer relationship, software development and goodwill.

This section explains the accounting policies applied and the specific judgements and estimates made by the Directors in arriving at the net book value of these assets.

Accounting policies

Goodwill

Goodwill arises on the acquisition of subsidiaries. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the assets and liabilities of the acquiree. Separately recognised goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. It is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Brand

Acquired brands are carried at original cost based on independent valuation obtained at the date of acquisition. The brand represents the price paid to acquire the rights to use the Kathmandu, Oboz or Rip Curl brand. The brand is not amortised. Instead, the brand is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses.

Customer relationships

Acquired customer relationships are carried at original cost based on independent valuation obtained at the date of acquisition less accumulated amortisation. They are amortised on a straight-line basis over a useful life of five to ten years. The estimated useful life and amortisation period is reviewed at the end of each annual reporting period.

Software costs

Software costs have a finite useful life. Software costs are capitalised and amortised over the useful economic life.

Costs associated with maintaining computer software programs are recognised as an expense when incurred. Costs that are directly associated with the creation or acquisition of an identifiable software asset controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees and contractors.

Software is amortised over the estimated useful economic life of the asset ranging from two to ten years.

Software-as-a Service (SaaS) arrangements

SaaS arrangements are arrangements in which the Group does not currently control the underlying software used in the arrangement.

Where implementation costs for SaaS arrangements result in the creation of an identifiable software asset, and where the Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits, such costs are recognised as a separate intangible software asset and amortised over the useful life of the software on a straight-line basis.

Where costs incurred to configure or customise SaaS arrangements do not result in the recognition of an intangible software asset, then those costs that provide the Group with a distinct service (in addition to access to the SaaS software) are recognised as expenses when the supplier provides the services. When such costs incurred do not provide a distinct service, the costs are recognised as expenses over the duration of the expected renewable term of the arrangement.

Other intangibles

Other intangibles relate to lease rights expenditure associated with acquiring existing lease agreements for stores where there is an active market for key money. They are carried at original cost less accumulated impairment losses. Other intangibles have an indefinite useful life and are tested annually for impairment.

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Impairment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life, including goodwill, are not subject to amortisation and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows e.g., cash generating units.

Intangible assets

	Goodwill	Brand	Customer relationship	Software	Other intangibles	Total
	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000
				Restated		Restated
As at 31 July 2020						
Cost	283,030	357,123	41,495	51,487	4,552	737,687
Accumulated amortisation	(1,271)	-	(4,213)	(43,173)	(1,612)	(50,269)
Closing net book value	281,759	357,123	37,282	8,314	2,940	687,418
Year ended 31 July 2021						
Opening net book value	281,759	357,123	37,282	8,314	2,940	687,418
Additions	-	-	-	15,583	-	15,583
Disposals	-	-	-	-	-	-
Amortisation	-	-	(5,203)	(2,536)	-	(7,739)
Foreign exchange	(5,358)	(6,996)	(695)	(78)	(126)	(13,253)
Closing net book value	276,401	350,127	31,384	21,283	2,814	682,009
As at 31 July 2021						
Cost	277,672	350,127	40,621	67,004	4,358	739,782
Accumulated amortisation	(1,271)	-	(9,237)	(45,721)	(1,544)	(57,773)
Closing net book value	276,401	350,127	31,384	21,283	2,814	682,009
Year ended 31 July 2022						
Opening net book value	276,401	350,127	31,384	21,283	2,814	682,009
Additions	-	-	-	14,885	-	14,885
Disposals	-	-	-	(14)	-	(14)
Amortisation	-	-	(5,188)	(7,151)	-	(12,339)
Transfers from property, plant and equipment	-	-	-	1,507	-	1,507
Foreign exchange	13,600	18,040	1,532	228	(126)	33,274
Closing net book value	290,001	368,167	27,728	30,738	2,688	719,322
As at 31 July 2022						
Cost	291,272	368,167	42,892	84,471	4,162	790,964
Accumulated amortisation	(1,271)	-	(15,164)	(53,733)	(1,474)	(71,642)
Closing net book value	290,001	368,167	27,728	30,738	2,688	719,322

Sale of intangibles

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of comprehensive income.

	2022	2021
	NZ$'000	NZ$'000
Loss on sale of intangibles	14	-

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Impairment tests for goodwill and brand

The aggregate carrying amounts of goodwill and brand allocated to each unit for impairment testing are as follows:

	Goodwill		Brand	
	2022	**2021**	**2022**	**2021**
	NZ$'000	**NZ$'000**	**NZ$'000**	**NZ$'000**
Kathmandu	122,936	121,383	153,336	148,151
Oboz	72,572	65,315	39,859	35,873
Rip Curl	94,493	89,703	174,972	166,103
	290,001	276,401	368,167	350,127

For the purposes of goodwill and brand impairment testing, the Group operates as three cash generating units, Kathmandu, Rip Curl and Oboz, which are now aligned to the Group's operating segments as outlined in note 2.1.

Previously impairment testing for Kathmandu was reported separately for Australia and New Zealand. Impairment testing continues to be conducted at this level and no indicators of impairment exist.

The recoverable amount of each cash generating unit (CGU) has been determined based on the fair value less cost of disposal (FVLCOD). Five-year projected cash flows are used to determine the FVLCOD.

The discounted cash flow valuations were calculated using post tax cash flow projections based on financial budgets prepared by management and approved by the Directors for the year ended 31 July 2023. Cash flows beyond July 2023 are based on three-year business plans presented to the Directors.

The key assumption used:

- The FVLCOD model assumes the COVID-19 trading disruption experienced during the prior and current years will continue for a portion of FY23 and then return to more normalised trading in FY24 and beyond. The Group believes the assumptions used in cash flows reflect a combination of the Groups experience and uncertainty associated with COVID-19.
- While temporary store and market closures may impact short term results, these are not expected to impact the long-term performance of each CGU. Several scenarios have been assessed where trading conditions do not normalise until FY24, and in each scenario the fair value for the CGU exceeds the carrying value.

Other assumptions used:

	2022			2021		
	Kathmandu	**Rip Curl**	**Oboz**	**Kathmandu**	**Rip Curl**	**Oboz**
Pre-tax WACC rate	12.9%	12.8%	14.5%	11.3%	11.3%	11.3%
Post-tax WACC rate	9.1%	9.0%	10.5%	7.9%	7.9%	8.2%
Terminal growth rate	2.4%	2.5%	2.2%	2.0%	2.0%	2.0%

The terminal growth rate assumption is based on a conservative estimate considering the current inflation targets and do not exceed the historical long-term average growth rate for each CGU. Pre-tax discount rates are calculated based on a market participant expected capital structure and cost of debt to derive a weighted average cost of capital.

The calculations confirmed that there was no impairment of goodwill and brand during the year (2021: nil). The Directors believe that any reasonably possible change in the key assumptions used in the calculations would not cause the carrying amount to exceed its recoverable amount.

The expected continued promotion and marketing of the Kathmandu, Oboz and Rip Curl brands supports the assumption that the brand has an indefinite life.

The Group has considered the impact of climate change on the key assumptions included in its impairment testing and has concluded that it will not have a material impact on the key assumptions.

Capital commitments

Capital commitments contracted for at balance sheet date include intangible assets of $2,962,000 (2021: $7,271,000).

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3.4 Leases

Keeping it simple …

The following section shows the assets leased by the Group to operate the business, generating revenues and profits. These assets include the lease of retail stores.

This section explains the accounting policies applied and the specific judgements and estimates made by the Directors in arriving at the carrying value of these assets and the corresponding lease liability.

Accounting policies

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

Lease liability

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

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

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

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

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

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

Right of use asset

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

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

Right-of-use assets are depreciated over the lease term and including expected renewals. The depreciation starts at the commencement date.

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

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Variable rents

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

Group as a lessee

The Group leases several assets including buildings and motor vehicles. Some of the existing lease arrangements have right of renewal options for varying terms. Renewal options are included within the lease if the Group is reasonably certain to take up the option. The average lease term for property leases, including expected rights of renewal, is 9 years (2021: 8 years). The average lease term for vehicle leases is 3 years (2021: 3 years).

3.4.1 Right-of-use assets

The movements in right of use assets were as follows:

	2022 NZ$'000	2021 NZ$'000
Opening net book value	242,677	258,699
Additions and modifications to right-of-use asset	75,311	76,853
Depreciation for the period	(77,605)	(86,382)
Impairment for the period	(928)	(1,894)
Foreign exchange	10,917	(4,599)
Closing net book value	250,372	242,677
Cost	439,852	391,327
Accumulated amortisation & impairment	(189,480)	(148,650)
Closing net book value	250,372	242,677

3.4.2 Lease liabilities

The movements in lease liabilities were as follows:

	2022 NZ$'000	2021 NZ$'000
Opening lease liabilities	279,271	298,622
Additions and modifications to lease liability	75,816	75,601
Interest expense on lease liabilities	8,476	8,879
Repayment of lease liabilities (including interest)	(91,247)	(98,694)
Foreign exchange	12,271	(5,137)
Closing lease liabilities	284,587	279,271

Lease liability maturity analysis

	Gross lease payments NZ$'000	Interest NZ$'000	Carrying amount NZ$'000
As at 31 July 2021			
Within one year	82,639	(7,067)	75,572
One to five years	180,207	(12,559)	167,648
Beyond five years	38,433	(2,382)	36,051
	301,279	(22,008)	279,271
Current			75,572
Non-current			203,699
			279,271
As at 31 July 2022			
Within one year	82,992	(7,699)	75,293
One to five years	184,404	(13,683)	170,721
Beyond five years	40,849	(2,276)	38,573
	308,245	(23,658)	284,587
Current			75,293
Non-current			209,294
			284,587

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Section 4: Capital Structure and Financing Costs

In this section …

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

Capital structure is how an entity finances its overall operations and growth by using different sources of funds. The Directors determine and monitor the appropriate capital structure of the Group, specifically how much is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) to finance the Group's activities both now and in the future.

The Directors consider the Group's capital structure and dividend policy at least twice a year ahead of announcing results and do so in the context of its ability to continue as a going concern, to execute strategy and to deliver its business plan.

4.1 Interest bearing liabilities

Accounting policies

Interest bearing liabilities are the Group's borrowings. Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

The table below separates borrowings into current and non-current liabilities:

	2022 NZ$'000	2021 NZ$'000
Current portion	-	-
Non-current portion	110,881	105,597
	110,881	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 guaranteeing group comprises entities operating in New Zealand, Australia, North America and the United Kingdom. The carrying value of the assets pledged as security is $1,408,254,000 (2021: $1,451,186,000).

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 rates, prior to hedging, on the term loans ranged between 0.99% - 3.20% (2021: 0.95% - 1.05%).

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Reconciliation of movement in borrowings

	2022 NZ$'000	2021 NZ$'000
Opening balance	105,597	241,270
Net cash flow movement	-	(128,894)
Loans forgiven	-	(4,025)
Capitalised borrowing costs	(340)	-
Foreign exchange movement	5,624	(2,754)
Closing balance	110,881	105,597

Paycheck Protection Program (PPP) loans

As part of the US government response to COVID-19 the Group's US resident companies applied for Paycheck Protection Program (PPP) loans of US$2,814,000 in the year ended 31 July 2020.

Included within the Group's interest bearing liabilities as at 31 July 2020 was US$2,814,000 relating to the PPP loans that were recognised as other income in the year ended 31 July 2021 on the basis that the Group had either received forgiveness or believed it had met the conditions for forgiveness. During the year the Group obtained formal forgiveness for all outstanding PPP loans. The forgiveness during the year has had no impact on the Group's balance sheet, statement of comprehensive income or cash flows for the year ended 31 July 2022.

Borrowings maturity analysis

	2022 NZ$'000	2021 NZ$'000
Principal of interest-bearing liabilities:		
Payable within 1 year	-	-
Payable 1 to 2 years	110,881	-
Payable 2 to 3 years	-	105,597
Payable 3 to 4 years	-	-
	110,881	105,597

4.1.1 Finance costs

	2022 NZ$'000	2021 NZ$'000
Interest income	(394)	(834)
Interest expense on interest bearing liabilities	1,809	2,370
Interest on lease liabilities	8,476	8,879
Other finance costs	3,057	5,358
Net exchange loss / (gain) on foreign currency	845	704
	13,793	16,477

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

4.1.2 Cash flow and fair value interest rate risk

Interest rate risk is the risk that fluctuations in interest rates impact the Group's financial performance.

Risk	Exposure arising from	Monitoring	Management
Interest rate risk	Interest bearing liabilities at floating interest rates	Cash flow forecasting Sensitivity analysis	Interest rate swaps

Refer to note 4.2 for notional principal amounts and valuations of interest rate swaps outstanding at balance sheet date. A sensitivity analysis of interest rate risk on the Group's financial assets and liabilities is provided in the table below.

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At the reporting date the interest rate profile of the Group's banking facilities was (carrying amount):

	2022 NZ$'000	2021 NZ$'000
Total secured borrowings	110,881	105,597
Less Principal covered by interest rate swaps	-	-
Net principal subject to floating interest rates	110,881	105,597

Interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. The cash flow hedge loss on interest rate swaps at balance sheet date was nil (2021: nil).

Interest rate sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk.

A sensitivity of 1% (2021: 1%) has been selected for interest rate risk. The 1% is based on reasonably possible changes over a financial year, using the observed range of historical data for the preceding five-year period.

Amounts are shown net of income tax. All variables other than applicable interest rates are held constant. The impact on equity is presented exclusive of the impact on retained earnings.

	Carrying amount	-1%		+1%	
		Profit	Equity	Profit	Equity
	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000
As at 31 July 2021					
Financial assets					
Cash and cash equivalents	142,614	(1,027)	-	1,027	-
Financial liabilities					
Interest bearing liabilities	(105,597)	760	-	(760)	-
Net increase / (decrease)		**(267)**	**-**	**267**	**-**

	Carrying amount	-1%		+1%	
		Profit	Equity	Profit	Equity
	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000
As at 31 July 2022					
Financial assets					
Cash and cash equivalents	70,810	(510)	-	510	-
Financial liabilities					
Interest bearing liabilities	110,881	798	-	(798)	-
Net increase / (decrease)		**288**	**-**	**(288)**	**-**

4.1.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Risk	Exposure arising from	Monitoring	Management
Liquidity risk	Trade and other payables Interest bearing liabilities	Cash flow forecasting	Active working capital management Flexibility in funding arrangements

The Group has borrowing facilities of $332,772,000 (2021: $317,831,000) and operates well within this facility. This includes short term bank overdraft requirements, and at balance sheet date no bank accounts were in overdraft.

Keeping it simple …

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, so will not always reconcile with the amounts disclosed on the balance sheet.

	Less than 1 year NZ$'000	Between 1 - 2 years NZ$'000	Between 2 - 5 years NZ$'000	Over 5 years NZ$'000
As at 31 July 2021				
Trade payables and accrued expenses	106,583	-	-	-
Interest bearing liabilities	1,045	1,045	106,456	-
	107,628	1,045	106,456	-
As at 31 July 2022				
Trade payables and accrued expenses	152,278	1,771	1,136	-
Interest bearing liabilities	2,239	112,716	-	-
	154,517	114,487	1,136	-

The Group enters into forward exchange contracts to manage the risks associated with the purchase of foreign currency denominated products.

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. They are expected to occur and affect the profit or loss at various dates between balance sheet dates and the following five years.

	Less than 1 year NZ$'000	Between 1 - 2 years NZ$'000	Between 2 - 5 years NZ$'000	Over 5 years NZ$'000
As at 31 July 2021				
Forward foreign exchange contracts				
Inflow	169,991	-	-	-
Outflow	(165,785)	-	-	-
Net inflow / (outflow)	4,206	-	-	-
As at 31 July 2022				
Forward foreign exchange contracts				
Inflow	180,362	-	-	-
Outflow	(170,426)	-	-	-
Net inflow / (outflow)	9,936	-	-	-

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4.2 Derivative financial instruments

Keeping it simple …

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables such as exchange rates or interest rates and is entered into for a fixed period. A hedge is where a derivative is used to manage an underlying exposure.

The Group is exposed to changes in interest rates on its borrowings and to changes in foreign exchange rates on its foreign currency (largely USD) purchases. The Group uses derivatives to hedge these underlying exposures.

Derivative financial instruments are initially included in the balance sheet at their fair value, either as assets or liabilities, and are subsequently re-measured at fair value at each reporting date.

An interest rate swap is an instrument to exchange a fixed rate of interest for a floating rate, or vice versa, or one type of floating rate for another.

Accounting policies

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

At inception of the hedging relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of the hedged items. The Group also documents its risk management objectives and strategy for undertaking its hedge transactions.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of comprehensive income.

Amounts accumulated in equity are recycled in the consolidated statement of comprehensive income in the periods when the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of comprehensive income.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income, except when deferred in other comprehensive income. Translation differences on monetary financial assets and liabilities are reported as part of the foreign exchange gain or loss.

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Derivative financial instruments

	2022 NZ$'000	2021 NZ$'000
Foreign exchange contracts		
Current asset	9,936	5,285
Current liability	-	(1,079)
Net foreign exchange contracts - cash flow hedge (asset / (liability))	9,936	4,206
Interest rate swaps		
Current liability	-	-
Non-current liability	-	-
Net interest rate swaps - cash flow hedge (asset / (liability))	-	-
Total derivative financial instruments	**9,936**	**4,206**

The above table shows the Group's financial derivative holdings at year end.

Interest rate swaps - cash flow hedge

Interest rate swaps are to exchange a floating rate of interest for a fixed rate of interest. The objective of the transaction is to hedge the core floating rate borrowings of the business to minimise the impact of interest rate volatility within acceptable levels of risk thereby limiting the volatility on the Group's financial results. The notional amount of interest rate swaps at balance sheet date was nil (2021: nil). The fixed interest rate is nil (2021: nil). Refer to note 4.1.3 for timing of contractual cash flows relating to interest rate swaps.

Foreign exchange contracts - cash flow hedge

The objective of these contracts is to hedge highly probable anticipated foreign currency purchases against currency fluctuations. These contracts are timed to mature when import purchases are scheduled for payment. The notional amount of foreign exchange contracts amounts to US$106,730,000 / NZ$159,303,000 (2021: US$117,650,000 / NZ$164,706,000).

No material hedge ineffectiveness for interest rate swaps or foreign exchange contracts exists as at balance sheet date (2021: nil).

Refer to note 4.2.1 for a sensitivity analysis of foreign exchange risk associated with derivative financial instruments.

4.2.1 Foreign exchange risk

Foreign exchange risk is the risk that fluctuations in exchange rates will impact the Group's financial performance. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the AUD, USD and EUR.

Risk	Exposure arising from	Monitoring	Management
Foreign exchange risk	Foreign currency purchases (over 90% of purchases in USD)	Forecast purchases Reviewing exchange rate movements	USD foreign exchange derivatives

The Group is exposed to currency risk on any cash remitted between entities in different jurisdictions. The Group does not hedge for such remittances. Interest on borrowings is typically denominated in either New Zealand dollars or Australian dollars and is paid for out of surplus operating cashflows generated in New Zealand or Australia.

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Foreign currency sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to foreign exchange risk.

A sensitivity of -10% / +10% (2021: -10% / +10%) for foreign exchange risk has been selected. While it is unlikely that an equal movement of the New Zealand dollar would be observed against all currencies, an overall sensitivity of -10% / +10% (2021: -10% / +10%) is reasonable given the exchange rate volatility observed on a historic basis for the preceding five-year period and market expectation for potential future movements.

Amounts are shown net of income tax. All variables other than applicable exchange rates are held constant. The impact on equity is presented exclusive of the impact on retained earnings.

	Carrying amount	-10%		+10%	
		Profit	Equity	Profit	Equity
	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000
As at 31 July 2021					
Financial assets					
Cash and cash equivalents	142,614	10,639	-	(8,705)	-
Trade and other receivables	62,562	4,967	-	(4,064)	-
Foreign exchange contracts – cash flow hedge	5,285	-	(14,026)	-	11,476
Financial liabilities					
Trade and other payables	(164,024)	(11,743)	-	9,608	-
Interest bearing liabilities	(105,597)	(8,448)	-	6,912	-
Foreign exchange contracts – cash flow hedge	(1,079)	-	(4,729)	-	3,870
Net increase / (decrease)		**(4,585)**	**(18,755)**	**3,751**	**15,346**

	Carrying amount	-10%		+10%	
		Profit	Equity	Profit	Equity
	NZ$'000	NZ$'000	NZ$'000	NZ$'000	NZ$'000
As at 31 July 2022					
Financial assets					
Cash and cash equivalents	70,810	3,806	-	(3,114)	-
Trade and other receivables	92,882	7,303	-	(5,975)	-
Foreign exchange contracts – cash flow hedge	9,936	-	(16,764)	-	13,716
Financial liabilities					
Trade and other payables	(211,280)	(14,823)	-	12,128	-
Interest bearing liabilities	(110,881)	(8,870)	-	7,258	-
Foreign exchange contracts – cash flow hedge	-	-	(86)	-	70
Net increase / (decrease)		**(12,584)**	**(16,850)**	**10,297**	**13,786**

4.3 Equity

Keeping it simple …

This section explains material movements recorded in shareholders' equity that are not explained elsewhere in the financial statements. The movements in equity and the balance at 31 July 2022 are presented in the consolidated statement of changes in equity.

Accounting policies

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends are recognised through equity following the approval by the Company's directors.

4.3.1 Contributed equity - ordinary shares

	2022 NZ$'000	2021 NZ$'000
Ordinary shares fully paid	626,380	626,380
Opening balance	626,380	626,380
Shares issued under Executive and Senior Management Long-Term Incentive Plan	-	-
Shares issued under share entitlement offers and share placement	-	-
Closing balance	626,380	626,380

Number of issued shares

	2022 '000	2021 '000
Opening balance	709,001	709,001
Shares issued under Executive and Senior Management Long-Term Incentive Plan	-	-
Shares issued under share entitlement offers and share placement	-	-
Closing balance	709,001	709,001

As at 31 July 2022 there were 709,001,384 (2021: 709,001,384) ordinary issued shares in KMD Brands Limited and these are classified as equity.

No shares (2021: nil) were issued under the 'Executive and Senior Management Long Term Incentive Plan 24 November 2010' during the year.

All ordinary shares carry equal rights in respect of voting and the receipt of dividends. Ordinary shares do not have a par value.

Refer to note 6.3 for employee share-based remuneration plans.

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4.3.2 Reserves and retained earnings

Cash flow hedging reserve

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in other comprehensive income, as described in the accounting policy in note 4.2. The amounts are recognised in profit or loss when the associated hedged transaction affects profit or loss.

Foreign currency translation reserve

The foreign currency translation reserve is used to record foreign currency translation differences arising on the translation of the Group entities results and financial position. The amounts are accumulated in other comprehensive income and recognised in profit or loss when the foreign operation is partially disposed of or sold.

Share based payments reserve

The share-based payments reserve is used to recognise the fair value of share options and performance rights granted but not exercised or lapsed. Amounts are transferred to share capital when vested options are exercised by the employee or performance rights are vested.

Reserves

		2022 NZ$'000	2021 NZ$'000
Cash flow hedging reserve			
Opening balance		1,341	(5,141)
Realised (gains) / losses transferred to hedged asset		(7,794)	5,923
Revaluation movement		13,298	5,685
Deferred taxation movement	2.3	(627)	(5,126)
Closing balance		6,218	1,341
Foreign currency translation reserve			
Opening balance		(29,462)	(12,018)
Currency translation differences – gross		35,953	(17,444)
Currency translation differences – taxation	2.3	-	-
Closing balance		6,491	(29,462)
Share-based payments reserve			
Opening balance		2,637	608
Change during the year		914	1,798
Deferred taxation movement	2.3	(309)	289
Transfer to share capital on vesting of shares to employees		-	-
Share options / performance rights lapsed		(77)	(58)
Closing balance		3,165	2,637
Other reserves			
Opening balance		(47)	(61)
Current year expense recognised in other comprehensive income		-	14
Deferred taxation movement	2.3	-	-
Closing balance		(47)	(47)
Total reserves		**15,827**	**(25,531)**

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4.3.3 Dividends

	2022 NZ$'000	2021 NZ$'000
Prior year final dividend paid	21,270	-
Current year interim dividend paid	21,270	14,180
Dividends paid	42,540	14,180

Dividends paid represent NZ$0.06 per share (2021: NZ $0.02).

4.3.4 Capital risk management

The Group's capital includes contributed equity, reserves and retained earnings.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt or draw down more debt.

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Section 5: Group Structure

Keeping it simple …

This section provides information about the entities that make up the KMD Brands Limited Group and how they affect the financial performance and position of the Group.

5.1 Subsidiary companies

Subsidiaries are all entities over which the Group has control. Control is achieved when the Group:

- has power over the entity;
- is exposed to, or has rights to, variable returns from its involvement with the entity; and
- can use its power to affect returns.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. All subsidiaries in the Group have a balance date of 31 July.

The following entities comprise the significant trading and holding companies of the Group:

Companies	Parties to Deed of Cross Guarantee	Country of incorporation	Parent % holding 2022	2021
Parent entity:				
KMD Brands Limited	✓	New Zealand		
Subsidiaries:				
Kathmandu Group Holdings Limited *(formerly Milford Group Holdings Limited)*	✓	New Zealand	100%	100%
KMD Brands Investments Limited		New Zealand	100%	100%
KMD Brands Finance (NZ) Limited		New Zealand	100%	100%
KMD Brands Managed Services (NZ) Limited		New Zealand	100%	100%
KMD Brands Managed Services (AU) Pty Ltd		Australia	100%	100%
Kathmandu Limited		New Zealand	100%	100%
Kathmandu Pty Ltd	✓	Australia	100%	100%
Kathmandu (U.K.) Limited		United Kingdom	100%	100%
Kathmandu US Holdings LLC		United States of America	100%	100%
Oboz Footwear LLC		United States of America	100%	100%
Barrel Wave Holdings Pty Ltd	✓	Australia	100%	100%
Rip Curl Group Pty Ltd	✓	Australia	100%	100%
Rip Curl International Pty Ltd	✓	Australia	100%	100%
PT Jarosite		Indonesia	100%	100%
Rip Curl Pty Ltd	✓	Australia	100%	100%
Onsmooth Thai Co Ltd		Thailand	100%	100%
Rip Curl Investments Pty Ltd		Australia	100%	100%
Blue Surf Pty Ltd		Australia	100%	100%
RC Surf Pty Ltd		Australia	100%	100%
Rip Curl Airport & Tourist Stores Pty Ltd		Australia	100%	100%
JRRC Rundle Mall Pty Ltd		Australia	100%	100%
Rip Curl (Thailand) Ltd		Thailand	50%	50%
RC Airports Pty Ltd		Australia	100%	100%
Ozmosis Pty Ltd	✓	Australia	100%	100%
RC Chermside Pty Ltd		Australia	100%	100%
Bondi Rip Pty Ltd		Australia	100%	100%
Rip Curl Japan		Japan	100%	100%
Curl Retail No 1. Pty Ltd		Australia	100%	100%
RC Surf Sydney Pty Ltd		Australia	100%	100%
RC Surf South Pty Ltd		Australia	100%	100%
RC Surf NZ Limited		New Zealand	100%	100%

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Rip Curl Finance Pty Ltd	✓	Australia	100%	100%
Rip Curl Europe S.A.S		France	100%	100%
Rip Curl Spain S.A.U		Spain	100%	100%
Rip Curl Suisse S.A.R.L		Switzerland	100%	100%
Rip Surf LDA		Portugal	100%	100%
Rip Curl UK Ltd		United Kingdom	100%	100%
Rip Curl Germany GMBH		Germany	100%	100%
Rip Curl Nordic AB		Sweden	100%	100%
Rip Curl Inc		United States of America	100%	100%
Rip Curl Canada Inc		Canada	100%	100%
Rip Curl Brazil LTDA		Brazil	100%	100%

5.2 Deed of Cross Guarantee

Pursuant to ASIC Corporations (wholly owned Companies) Instrument 2016/785, the Australian-incorporated wholly owned subsidiaries listed in note 5.1 as parties to the Deed of Cross Guarantee are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and directors' reports in Australia.

It is a condition of the ASIC Corporations Instrument that the Company and each of the subsidiaries listed enter a Deed of Cross Guarantee. The effect of the Deed is that each party guarantees to each creditor of each other party payment in full of any debt in the event of winding up of the other party under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the guarantee will only apply if after six months after a resolution or order winding up any creditor has not been paid in full.

A consolidated statement of comprehensive income and balance sheet are prepared for the Company and controlled entities that are parties to the Deed of Cross Guarantee, which eliminate all transactions between parties to the Deed of Cross Guarantee. These financial statements are included as a separate disclosure within the Consolidated Financial Statements in order to meet the Group's Australian statutory reporting obligations.

Consolidated Statement of Comprehensive Income and Retained Earnings for the year ended 31 July 2022

	2022 NZ$'000	2021 NZ$'000
Sales	530,199	492,039
Expenses	(484,712)	(439,194)
Finance costs – net	1,965	(13,601)
Profit before income tax	**47,452**	**39,244**
Income tax expense	(12,848)	(13,077)
Profit after income tax	**34,604**	**26,167**
Other comprehensive income	14,837	(2,245)
Total comprehensive income for the year	**49,441**	**23,922**
Opening retained earnings	**(48,708)**	**(60,753)**
Profit for the year after income tax	34,604	26,167
Dividends paid	(42,540)	(14,180)
Share options / performance rights lapsed	77	58
Closing retained earnings	**(56,567)**	**(48,708)**

Consolidated Balance Sheet
as at 31 July 2022

	2022 NZ$'000	2021 NZ$'000
ASSETS		
Current assets		
Cash and cash equivalents	23,201	100,627
Trade and other receivables	23,453	14,524
Inventories	136,195	115,886
Derivative financial instruments	4,948	4,044
Current tax asset	660	116
Other current assets	770	546
Total current assets	**189,227**	**235,743**
Non-current assets		
Trade and other receivables	87,736	61,711
Investments	354,777	348,611
Property, plant and equipment	40,357	43,230
Intangible assets	477,908	460,819
Right-of-use assets	133,171	133,901
Total non-current assets	**1,093,949**	**1,048,272**
Total assets	**1,283,176**	**1,284,015**
LIABILITIES		
Current liabilities		
Trade and other payables	86,931	73,797
Derivative financial instruments	-	534
Current tax liabilities	-	9,037
Current lease liabilities	50,301	53,388
Total current liabilities	**137,232**	**136,756**
Non-current liabilities		
Non-current trade and other payables	7,542	7,635
Interest bearing liabilities	110,881	105,597
Loans with related parties	267,033	289,129
Deferred tax	76,073	65,874
Non-current lease liabilities	104,125	106,239
Total non-current liabilities	**565,654**	**574,474**
Total liabilities	**702,886**	**711,230**
Net assets	**580,290**	**572,785**
EQUITY		
Contributed equity – ordinary shares	626,380	626,380
Reserves	10,477	(4,887)
Retained earnings	(56,567)	(48,708)
Total equity	**580,290**	**572,785**

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Section 6: Other Notes

6.1 Related parties

All transactions with related parties were in the normal course of business and provided on commercial terms. No amounts owed to related parties have been written off or forgiven during the period.

Key management personnel compensation

	2022 NZ$'000	2021 NZ$'000
Salaries	5,189	3,930
Other short-term employee benefits	468	452
Post-employment benefits	201	75
Termination benefits	468	-
Share-based payments expense	308	(196)
	6,634	4,261

6.2 Fair values

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 estimated based on current market rates available to the Group for debt of similar maturity. The fair value of term liabilities equates to their current carrying value.

Foreign exchange contracts and interest rate swaps

The fair value of these instruments is determined using valuation techniques (as they are not traded in an active market). These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Specific valuation techniques used to value financial instruments include the fair value of interest rate swaps. These are calculated at the present value of the estimated future cash flows, based on observable yield curves and the fair value of forward foreign exchange contracts, as determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

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.

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 are approximately nil. All guarantees are payable on demand.

6.3 Employee share-based remuneration

Accounting policy

Equity settled long term incentive plan

The Executive and Senior Management Long Term Incentive plan grants Group employee's performance rights subject to performance hurdles being met. The fair value of rights granted is recognised as an employee expense in the consolidated statement of comprehensive income with a corresponding increase in the employee share-based payments reserve. The fair value is measured at grant date and amortised over the vesting periods. The fair value of the rights granted is measured using the KMD Brands Limited share price as at the grant date less the present value of the dividends forecast to be paid prior to each vesting date. At each balance sheet date, the Company revises its estimates of the number of shares expected to be distributed. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income, and a corresponding adjustment to equity over the remaining vesting period.

Executive and Senior Management Long Term Incentive Plan

On 20 November 2013, shareholders approved at the Annual General Meeting the continuation of an Employee Long Term Incentive Plan (LTI) (previously established 24 November 2010) to grant performance rights to Executive Directors, Senior Managers, Other Key Management Personnel and Wider Leadership Management.

Executive Directors and Senior Managers

Performance rights granted to Executive Directors and Senior Managers are summarised below:

	Opening balance	Granted during the year	Vested during the year	Lapsed during the year	Closing balance
Grant date					
20 Dec 2021	-	1,961,064	-	(449,524)	1,511,540
22 Dec 2020	1,351,890	-	-	(525,357)	826,533
9 Jul 2020	321,359	-	-	(161,418)	159,941
20 Dec 2018	56,649	-	-	(56,649)	-
	1,729,898	1,961,064	-	(1,192,948)	2,498,014

Long Term Incentive performance rights vest in equal tranches. In each tranche the rights are subject to a combination of a relative Total Shareholder Return (TSR) hurdle and / or an EPS growth hurdle. The relative weighting and number of tranches for each grant date are shown in the table below:

Grant date	Tranche	EPS weighting	TSR weighting
20 Dec 2021	Tranche 1	50%	50%
22 Dec 2020	Tranche 1	50%	50%
9 Jul 2020	Tranche 1	0%	100%
20 Dec 2018	Tranche 1	50%	50%

The proportion of rights subject to the relative TSR hurdle is dependent on KMD Brands Limited's TSR performance relative to a defined comparable group of companies in New Zealand and Australia listed on either the ASX or NZX. The percentage of TSR related rights vest according to the following performance criteria:

KMD Brands Limited relative TSR ranking	% vesting
Below 50th percentile	0%
50th percentile	50%
51st – 74th percentile	50% + 2% for each percentile above the 50th
75th percentile or above	100%

The TSR performance is calculated for the following performance periods:

Tranche	2022	2021
Tranche 1	36 months to 1 December 2024	36 months to 1 December 2023

The fair value of the TSR rights have been valued under a Monte Carlo simulation approach predicting KMD Brands Limited's TSR relative to the comparable group of companies at the respective vesting dates for each tranche. The fair value of TSR rights, along with the assumptions used to simulate the future share prices using a random-walk process are shown below:

	2022	2021
Fair value of TSR rights	$1.03	$0.89
Current price at grant date	$1.47	$1.26
Risk free interest rate	2.02%	0.28%
Expected life (years)	3	3
Expected share volatility	71.5%	73.0%

The estimated fair value for each tranche of rights issued is amortised over the vesting period from the grant date.

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The proportion of rights subject to the EPS growth hurdle is dependent on the compound average annual growth in KMD Brands Limited's EPS relative to the year ending 31 July 2021 (2021: 31 July 2020). The applicable performance periods are:

Tranche	2022	2021
Tranche 1	FY24 EPS relative to FY21 EPS	FY23 EPS relative to FY20 EPS

The percentage of the December 2020 EPS growth related rights scales according to the compound average annual EPS growth over three years. Each year's target is set annually, and an average is taken over the three years to determine overall achievement.

The EPS growth targets for financial year ended 31 July 2022 were set before the impact of COVID-19 related lockdowns during the financial year were known. Consideration has been given to adjusting these targets, however currently it has been determined that the EPS growth criteria has not been met and the 2022 achievement is zero.

The fair values of the EPS rights have been assessed as the KMD Brands Limited share price as at the grant date less the present value of the dividends forecast to be paid prior to each vesting date. The estimated fair value for each tranche of options issued is amortised over the vesting period from the grant date.

Vesting of Long Term Incentive performance rights also require remaining in employment with the Company during the performance period.

Other Key Management Personnel and Wider Leadership Management

Performance rights granted to Other Key Management Personnel and Wider Leadership Management are all Short Term Incentives under the shareholder approved Employee Long Term Incentive Plan, and are summarised below:

	Opening balance	Granted during the year	Vested during the year	Lapsed during the year	Closing balance
Grant date					
20 Dec 2021	-	3,322,092	-	-	3,322,092
22 Dec 2020	3,466,688	-	-	(197,014)	3,269,674
	3,466,688	3,322,092	-	(197,014)	6,591,766

Short Term Incentive performance rights vest:

- upon the Company achieving non-market performance hurdles; and
- the employee remaining in employment with the Company until the vesting date.

The performance period and vesting dates are summarised below:

	2022	2021
Grant date	20 Dec 2021	22 Dec 2020
Performance period (year ending)	31 July 2022	31 Jul 2021
Vesting date	31 July 2023	31 Jul 2022

The fair values of the rights were assessed as the KMD Brands Limited share price at the grant date less the present value of the dividends forecast to be paid prior to the vesting date.

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The non-market performance hurdles set for the year ending 31 July 2022 were not met and accordingly no expense (2021: $1,994,000) was recognised in the consolidated statement of comprehensive income in respect of Short Term Incentive performance rights granted 20 December 2021. The expenses incurred in the current period relate to rights granted 22 December 2020.

Expenses arising from equity settled share-based payments transactions

	2022 NZ$'000	2021 NZ$'000
Executive Director and Senior Managers	308	(196)
Other Key Management Personnel and Wider Leadership Management	606	1,994
	914	1,798

Of the performance rights granted on 22 December 2020 under the Short Term Incentives for Key Management Personnel and Wider Leadership Management plan, 923,339 performance rights have been cash settled after balance date. The expense disclosed above excludes cash settled performance rights, with a cumulative expense of $1,086,000. This expense is included in wages, salaries, and other short-term benefits in note 2.2.

6.4 Contingent liabilities

The Group is subject to litigation incidental to its business, none of which is expected to be material. No material provision has been made in the Group's consolidated 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 financial position, results of operations or cash flows. There are $662,000 of contingent liabilities as at 31 July 2022 (2021: $558,000).

6.5 Contingent assets

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

6.6 Events occurring after balance sheet date

On the 20 September 2022 the Board of Directors have announced that they will pay a final dividend of 3.0 cents per share, fully franked for Australian shareholders, and not imputed for New Zealand shareholders. This dividend is not recorded in the consolidated financial statements.

6.7 Supplementary information

Directors' fees

	2022 NZ$'000	2021 NZ$'000
Directors' fees	942	790

Directors' fees for the Company were paid to the following:

- David Kirk (Chairman)
- John Harvey
- Philip Bowman
- Brent Scrimshaw
- Andrea Martens
- Abby Foote

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Audit fees

During the year, the following fees were paid or payable for services provided by the auditor of the Company, its related practices and other network audit firms:

	2022 NZ$'000	2021 NZ$'000
Audit services – Group auditor		
Group audit - KPMG New Zealand	386	-
Group audit - KPMG Australia	131	-
Group audit - PwC New Zealand	-	407
Half year review - PwC New Zealand	-	75
France statutory audit - KPMG France	51	-
Thailand statutory audit - KPMG Thailand	33	-
UK statutory audit - KPMG New Zealand	20	-
	621	482
Audit services - other audit firms	106	174
Total fees for audit services	727	656
Non-audit services – Group auditor		
Taxation services - KPMG US	167	-
Taxation services - PwC France & PwC UK	-	46
Employee Retention Credits application - KPMG US	135	-
Revenue certificates - PwC New Zealand	-	6
Banking compliance certificates – PwC New Zealand	-	3
	302	55

On 6 December 2021 the Group appointed KPMG as its external auditor for the year ending 31 July 2022 (2021: PwC).

6.8 New accounting standards and interpretations

New standards and interpretations first applied in the period

There are no new accounting standards or interpretations first applied in the period.

A change in accounting policy was made in response to the IFRIC agenda decision on Software-as-a-Service (SaaS) cloud computing arrangements as described in note 1.4.

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

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

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Independent Auditor's Report

To the shareholders of KMD Brands Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the consolidated financial statements of KMD Brands Limited (the 'company') and its subsidiaries (the 'group') on pages 4 to 52:

i. present fairly in all material respects the Group's financial position as at 31 July 2022 and its financial performance and cash flows for the year ended on that date in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated balance sheet as at 31 July 2022;

— the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

Our firm has also provided other services to the group in relation to tax compliance services. 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 auditor of the group. The firm has no other relationship with, or interest in, the group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $4.1 million determined with reference to a benchmark of group revenue. We chose the benchmark because, in our view, this is a key measure of the group's performance that incorporated the impact of one-off events.

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
Impairment assessment of indefinite life intangible assets – Goodwill and Brands (note 3.3)	
The group has goodwill and brand assets of $290.0 million and $368.2 million respectively. These assets are a result of the historical acquisitions of the Kathmandu, Oboz and Rip Curl businesses. Impairment assessment of Goodwill and Brand assets is considered to be a key audit matter due to the significance of these assets to the group's financial position and the level of management judgement involved in the impairment assessment. These judgements include: — Determination of cash generating units (CGUs), or group of CGUs, to consider for testing; — Forecast future performance for each CGU, or group of CGUs; and — Assessment of discount and terminal growth rates.	Our audit procedures included: — Assessing the consistency of management's approach against the requirements of the accounting standards, including assessment of the CGU level at which to test the intangible assets; — Utilising our corporate finance specialists to challenge and assess management's assumptions, including the terminal growth rates and independently developing a discount rate range based on market data to challenge discount rates; — Assessing the integrity and mechanical accuracy of the impairment models; — Challenging the impairment models' results by assessing against EBITDA multiple analysis from publicly available market data; — Challenging the forecast cash flows in light of current market conditions and past performance of the group; and — Considering the sensitivity of key assumptions to changes within a reasonably possible range and associated financial statement disclosures. We did not identify any material misstatements in relation to the impairment assessment of indefinite life intangible assets or associated disclosures.
Software as a Service ('SaaS') cloud computing arrangements (note 1.4)	
As a result of the IFRIC agenda decision that was issued in April 2021, during the year the group has revised their accounting policy in relation to implementation costs on SaaS cloud computing arrangements. This has resulted in the Group restating $6.5 million of expenditure previously recognised as an intangible asset as at 31 July 2021, to operating expenditure or prepayments. This is considered a key audit matter due to the complexity involved in assessing	Our audit procedures included: — Analysing management's assessment of SaaS cloud computing arrangements; — Examining source contracts and other correspondence with IT vendors to understand contractual arrangements and consider the impacts of these arrangements on the group's control of software assets; — Utilising our accounting technical specialists to assess the consistency of management's approach against the requirements of the accounting standards and IFRIC agenda decision; and

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The key audit matter	How the matter was addressed in our audit
the software systems, there is a risk that expenditure on computer software is incorrectly recorded as an asset due to the technical complexity of determining whether an asset is created which is controlled by the Group.	— On a sample basis, vouching expenditure back to supporting documentation, such as invoices, to assess whether the expenditures have been appropriately treated. We did not identify any material misstatements in relation to the change in accounting policy or associated disclosures.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information comprises the information in the Annual Report that is not the financial statements or independent auditor's report. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.

Other matter

The consolidated financial statements of the group, for the year ended 31 July 2021, were audited by another auditor who expressed an unmodified opinion on those statements on 21 September 2021.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's 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 audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

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

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and 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.

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Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error ; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Peter Taylor.

For and on behalf of

KPMG

KPMG
Christchurch

20 September 2022