



KATHMANDU HOLDINGS LIMITED

Annual Report 2021

Who we are

Kathmandu Holdings Limited (the Company) is a global outdoor, lifestyle and sports company, consisting of three iconic brands: Kathmandu, Rip Curl and Oboz, delivering technical products with a focus on sustainability.

The Kathmandu brand was born in 1987. Kathmandu Holdings formed in 2009 as a publicly listed company. Together with the acquisition of Oboz (2018) and Rip Curl (2019), Kathmandu Holdings has transformed from a leading Australasian retailer to a brand-led global multi-channel business.



Leading outdoor brand
in Australasia



Iconic, inspirational and
authentic surf brand



Fast growing
North American hike
footwear brand

Global reach

North America

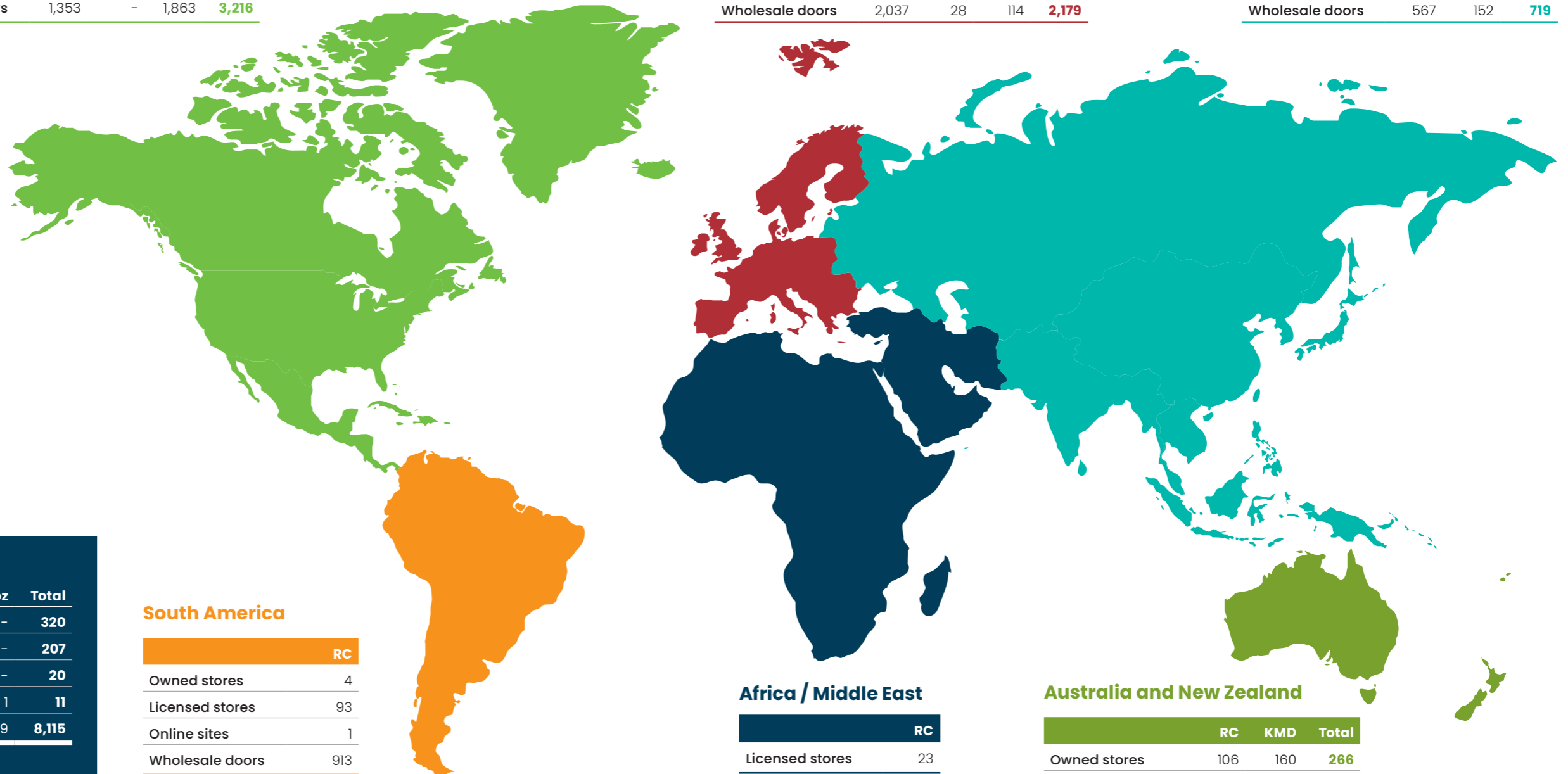
| | RC | KMD | Oboz | Total |
|-----------------|-------|-----|-------|--------------|
| Owned stores | 31 | - | - | 31 |
| Licensed stores | 13 | - | - | 13 |
| Online sites | 1 | 1 | 1 | 3 |
| Wholesale doors | 1,353 | - | 1,863 | 3,216 |

Europe

| | RC | KMD | Oboz | Total |
|-----------------|-------|-----|------|--------------|
| Owned stores | 19 | - | - | 19 |
| Licensed stores | 14 | - | - | 14 |
| Online sites | 1 | 1 | - | 2 |
| Wholesale doors | 2,037 | 28 | 114 | 2,179 |

Asia

| | RC | Oboz | Total |
|-----------------|-----|------|------------|
| Licensed stores | 46 | - | 46 |
| JV stores | 20 | - | 20 |
| Online sites | 1 | - | 1 |
| Wholesale doors | 567 | 152 | 719 |



TOTAL GROUP

| | RC | KMD | Oboz | Total |
|-----------------|-------|-----|-------|--------------|
| Owned stores | 160 | 160 | - | 320 |
| Licensed stores | 207 | - | - | 207 |
| JV stores | 20 | - | - | 20 |
| Online sites | 6 | 4 | 1 | 11 |
| Wholesale doors | 5,958 | 28 | 2,129 | 8,115 |

South America

| | RC |
|-----------------|-----|
| Owned stores | 4 |
| Licensed stores | 93 |
| Online sites | 1 |
| Wholesale doors | 913 |

Africa / Middle East

| | RC |
|-----------------|----|
| Licensed stores | 23 |

Australia and New Zealand

| | RC | KMD | Total |
|-----------------|-------|-----|--------------|
| Owned stores | 106 | 160 | 266 |
| Licensed stores | 18 | - | 18 |
| Online sites | 2 | 2 | 4 |
| Wholesale doors | 1,088 | - | 1,088 |

2021 Highlights

Financial

\$922.8m

Sales +15.1%

+40 bps

Gross margin improvement

\$113.3m

Underlying EBITDA¹
+35.9%

\$66.3m

Underlying NPAT¹
Statutory NPAT \$63.4m

\$93.3m

Underlying operating cash flow¹

\$37.0m

Net cash balance
Bank facility c.\$300m

Operational



19.2%

Direct to consumer (DTC) same store sales growth

31.3%

Online sales growth
12.5% of DTC sales



We're out there

Successful brand relaunch
May 2021

76 NPS

up 4 points in FY21
169,000 responses



Online store

Successful launch
April 2021

Wholesale

Double digit growth in forward wholesale order book to record levels

¹ Statutory results include the impact of IFRS 16 leases. For comparability, the impact of IFRS 16 is excluded from Underlying results. Refer to Appendix 1 of the FY21 Results Presentation for a reconciliation of Statutory to Underlying results.

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Notice of Annual Meeting 2021

1.00pm (NZDT) Tuesday
23 November 2021

www.virtualmeeting.co.nz/kmd21

Chairman's letter

The Group ended the 2021 financial year in a strong financial position, while continuing to navigate the impacts of the COVID pandemic.

Following the acquisition of Rip Curl in 2019, the Group has three high quality brands, and our results for the 2021 financial year show the benefit of having diversified channels to market, geographies, and product categories.

We are excited by the growth prospects of our brands, and are investing in digital infrastructure, our store network and brand initiatives to maximise our opportunities as we look to a post-COVID world.

Financial results

The Group benefited from a full 12 months of Rip Curl ownership in the 2021 financial year, compared to nine months of ownership last year.

Here are the highlights:

- Sales of \$922.8 million, an increase of 15.1%;
- Gross margin of 58.7%, an increase of 40 basis points;
- Earnings before interest, tax, depreciation, and amortisation of \$208.0 million, an increase of 39.2%;
- Net profit after tax of \$63.4 million, an increase from \$8.9 million in the 2020 financial year (which included transaction costs from the Rip Curl acquisition);
- Net cash position of \$37.0 million

Balance sheet strength

The Group is well positioned, following its fast response during the onset of the COVID pandemic to raise capital to strengthen its

balance sheet, reduce costs and adjust its operating structure.

The Group ended the financial year with a net cash position of \$37.0 million. This provides significant funding headroom with a total bank facility of approximately \$300 million.

The strong balance sheet position provides significant flexibility to manage any short-term COVID challenges, support growth investment, and consider potential capital management options.

Dividend

Following the suspension of dividends last financial year, the directors have declared a final dividend of 3 cents per share. With the 2 cents per share interim dividend, this will make a total payout for the 2021 financial year of 5 cents per share. The final dividend will be fully franked for Australian shareholders, and not imputed for New Zealand shareholders.

People

The Board appointed a new Group Chief Executive Officer during the year.

Former Group CEO Xavier Simonet resigned after five and a half years with the company. Xavier led the Group through an important period of growth and diversification of the company, including acquisitions of both the Oboz and Rip Curl brands.

After an extensive international search, the Board appointed Michael Daly as the new Group CEO. Michael led Rip Curl for eight years with a relentless focus on brand, product, people and the bottom line. We are confident



David Kirk
Chairman

David Kirk

he will bring the same focus and energy to the wider Group.

Refreshed strategy

Under the leadership of Michael Daly, our refreshed Group strategy ensures we are focused on the things that matter most as we move forward: building global brands focused on active outdoor activities, investing in digital platforms to provide consumers with a truly world class unified commerce experience, leveraging the operational excellence of our brands, and leadership in sustainability ("ESG").

Thank you

The Board would like to thank management and their teams for outstanding resilience and flexibility navigating the ongoing impacts of COVID, allowing the Group to end the financial year well positioned for the future.

I would also like to thank my Board colleagues for their continuing commitment to make Kathmandu Holdings successful.

Finally, thank you shareholders for your continued investment in Kathmandu Holdings Limited.

Group CEO review

Result overview

We are proud of the results we have been able to produce over the past 12 months in the face of ongoing COVID challenges, delivering strong sales and positioning the business for sustained growth. Both of the Group's acquired brands, Rip Curl and Oboz, are performing above pre-acquisition expectations, validating the Group's diversification strategy.

Rip Curl delivered an outstanding result, with sales above pre-COVID levels in the key regions of Australasia, North America and Europe. Rip Curl is benefiting from not only increased participation in surfing, but also the brand's technical product focus and strong consumer engagement.

Oboz continues its strong performance, with sales growth reflecting the successful product innovation strategy and diversification of its customer base.

Kathmandu continued to be impacted this year by ongoing COVID lockdown and travel restrictions. These included Government mandated closures of Australian stores in the key winter trading period, and reduced demand for travel related products. While Kathmandu has felt the impacts of COVID again this financial year, we were pleased with the early momentum following the brand relaunch in May 2021. This relaunch will build on strong brand fundamentals and position Kathmandu to grow to a truly global brand.

Refreshed Group strategy

The refreshed Group strategy focuses on four key priorities:

Build global brands

A key growth strategy for the Group is to build a global house of brands. In Rip Curl, Kathmandu, and Oboz,



Michael Daly
Managing Director and
Group Chief Executive Officer

the Group has three iconic outdoor active brands with significant potential for global expansion. We plan to further expand the global footprint of each of our brands and invest in world class brand and customer experiences.

Elevate digital

We are also investing to elevate the Group's digital platforms to deliver a truly world-class, unified commerce experience. The Group is implementing foundational common platforms for online and omni-channel, loyalty management, data insights and analysis, and personalisation.

Leverage operational excellence

We will also leverage and deliver operational excellence to all our brands across shared group support functions. We are working to optimise our supply chain, efficiently manage our fixed cost base, collaborate on product innovation between brands, and investing to enhance core systems to unlock growth potential across

loyalty programs and online. We also plan to accelerate cross-brand revenue growth opportunities.

Lead in ESG

Being a leader in ESG will drive long-term value for shareholders. We are working to extend Kathmandu's B Corp accreditation across all of our brands. Transparency and responsibility will continue to underpin everything we do, as we manage our environmental and social impact responsibly and ethically.

We are highly engaged with our people and communities, and our ESG strategy starts with the wellbeing of workers in our supply chain. We are setting science based targets that align with the Paris Climate Agreement and our circular business models target a zero-waste supply chain.

People

A key initial priority was to put in place a management structure to build out Group capabilities.

The Group have very experienced and capable leaders for the Kathmandu and Oboz brands in Reuben Casey and Amy Beck respectively. Following my acceptance of the Group CEO position, a thorough search process was undertaken for the new Rip Curl CEO. I was delighted to appoint Brooke Farris as the new Rip Curl CEO. Brooke has contributed greatly to Rip Curl's success and growth over the past eleven years with her indisputable commitment to the brand, product, and team. I am confident she will bring this same commitment and leadership in her new role.



Our brand CEO's are also supported by leaders in key Group support functions of systems, ESG, finance, and legal.

I would like to thank the leaders of our brands, Group support functions, and their worldwide teams for their outstanding resilience, flexibility, dedication and passion over the past year. The teams continued to meet the significant ongoing challenges of COVID on both their personal and professional lives, delivering outstanding results given the circumstances.

Outlook

The 2022 financial year has started with widespread lockdowns throughout Australasia, the Group's most significant geographical region. In addition, COVID is also impacting our supply chain, with reduced factory capacity stretching lead times, freight congestion leading to delivery delays and increased freight costs.

Our profit for the first half of the 2022 financial year is expected

to be below the first half of last financial year due to these ongoing COVID impacts.

The Group is well positioned with a strong balance sheet, significant bank facility headroom, and well controlled inventory. As we continue to proactively manage the impacts of COVID daily, our main priority is to ensure the health and safety of our staff, customers, and suppliers.

The Group's brands are well positioned to capitalise on growing participation in outdoor, beach and surfing activities. We are set to capitalise on opportunities resulting from the global COVID vaccination rollout, as restrictions ease in key growth markets, and international travel restrictions are expected to ease as the 2022 financial year progresses.

I'm excited by the platform we have in place to build a truly global house of brands to deliver sustainable long-term growth for our team members, retail consumers, wholesale customers and shareholders.



ESG across the Group

Identifying our material ESG issues

The Group's progress in relation to Environmental, Social and Governance ("ESG") issues this year has been driven by combining the strength of each of our brands to create a stronger Group.

Through aligning our supplier Code of Conduct and bringing all three brands under the Elevate supplier auditing programme, we have raised the bar across all three brands with one stroke.

The Company undertook its first group-wide ESG materiality assessment during the 2021 financial year. We now have a clear understanding of what is most important to the people our brands touch. This guides us on where to focus our work. Our priorities are:

- Our people, our communities
- Science based climate action
- Circular business models.

A key priority for the Group is to provide industry leadership in ESG, particularly on circular economy principles and transparency through its supply chains. The Group's objective is to continue to lead in ESG, by developing a family of outdoor brands that strive to make a positive impact for people and planet.

New link between sustainability and finance

In May this year, Kathmandu Holdings Limited secured New Zealand's largest sustainability linked loan. The A\$100 million



loan is tied to ESG targets. If the targets are met, the interest rate on the loan decreases.

Kathmandu Chief Financial Officer Chris Kinraid says linking borrowing to ESG targets helps make sure that even the finance team has skin in the game when it comes to sustainability.

"A sustainability linked loan helps us drive accountability internally. We set targets that are aligned to our strategy and then these are verified by a third party to make sure we have set sufficiently difficult targets," Chris says.

The Kathmandu loan was more complex because it is a syndicated loan, requiring cooperation from seven different lenders. Although sustainability linked funding is new, it is a growing trend.

"This is only the start. Right now, it is early adopters getting in on these loans, but I can imagine that, in 10 years' time, targets might be a requirement for all funding."

Kathmandu has set targets around emissions reductions, science-based targets, supplier wellbeing and achieving B Corp certification for Rip Curl and Oboz.

"This loan helps improve our transparency on these targets and how easily we are able to achieve them," says Chris. "If we reduce our costs by hitting the targets, we can reinvest that money in new initiatives."

It's a good process for the finance department to be able to play a part in achieving the Group's sustainability goals."

Our ESG focus areas



Our people, our communities

- People-centred culture and workplaces
- Wellbeing of workers in our supply chain
- Engage, inspire and protect our wider community.



Science based climate action

- Set group-level science based targets aligned with the Paris Climate Agreement.



Circular business models

- Design for circularity throughout our value chain
- Target a zero waste supply chain.

For more information, refer to the Kathmandu Holdings Limited 2021 Sustainability Report.



Group CEO Michael Daly reflects on the progress Rip Curl has made this year.

Our transition from private to public company under the ownership of the Kathmandu Holdings umbrella has challenged us to be more open and to push ourselves harder on sustainability and social measures.

I've been very proud of the way our team has risen to that challenge over the last 12 months. Although Rip Curl has always done work for its community and environment, I feel that our efforts have become more

formal and more coordinated this year – thanks in part to the fact that we have created a new department to oversee our ESG work. This new four-person team shows our commitment to making big strides in this area.

We've opened up the business to new levels of transparency and continued to innovate internally.

This year saw the launch of an important step towards circularity with our wetsuit take-back programme. We started

recycling neoprene offcuts and launched wetsuit hangers made from ocean plastics. We started tracking our carbon footprint for the first time.

We've updated our supplier code of conduct and aligned our supply chain work with our sister company Kathmandu.

We've learned a lot this year, and we have more to learn – which is why our partnership with the other brands in our family is so important.

Oboz President Amy Beck looks back on a year of groundwork and planning.

This year, the Oboz journey was about taking steps toward B Corp certification, embarking on our first-ever materiality assessment and our first carbon audit.

This work helps us understand where we have the most impact and where we need to focus our improvements – knowledge that will become the basis for our first proper sustainability strategy.

Our first materiality assessment was completed this year. We quickly realised this process provided us a deep understanding of what issues are most important to our brand and the people who are impacted by our actions.

In fact, Oboz sustainability work is assessed each year by major retail partner REI. We scored well this year, especially in areas related to core practices, chemical management and packaging.

We engaged a sustainability consultant to help us pull together our three-year plan. What has become most clear is that our team is passionate about sustainability – every single person included these measures in their key performance indicators. The next step is to give them the knowledge and tools to make a difference.

Despite the challenges of the past year, we've hired 12 new people, bringing our workforce to 57% women.

I'm excited for the future at Oboz. We've laid the groundwork for big strides in the coming years – from how we treat each other and our partners to our impact on climate change and the world.

Kathmandu CEO Reuben Casey explains how the company's new brand purpose, mission and values better reflect its past and its vision for the future.

We've redefined our vision to be the world's most loved outdoor brand. This speaks to our aspirations to be a global brand but also about creating an emotional connection with our customers, with our team and with all the people our brand touches.

Part of being a certified B Corp is looking at how we can benefit everyone that our brand comes into contact with from suppliers to customers.

Our new brand purpose is to improve the wellbeing of the world through the outdoors. This purpose resonates with our brand heritage. All the way back to the days of our "Live the dream" tagline, Kathmandu has always been about having fun in the outdoors, having a go and travelling the world.

We've also refined our values to three simple words: courageous, joyful and open.

Courageous is about doing the right thing even when it's hard. Courageous also speaks to sustainability – looking for solutions to more-sustainable products and more-ethical supply chain practices.

Joyful acknowledges the passion of our team. We

love what we do. We love each other's company. And especially for our store teams, this is a value that guides our interactions with customers.

Open is about being open to diversity, which is reflected in our Rainbow Tick certification. We operate in a very diverse society and our team is quite diverse, so this value is about being open to our differences and open to new ideas.

Our vision, purpose and values all fit together to make up our why and our focus point or North Star.

Our values show up in our new partnerships with Beyond Blue and the Graeme Dingle Foundation – organisations that help people access the wellbeing benefits of the outdoors.

Other things we're doing around carbon emissions and sustainable materials also ladder up to that purpose. It's a useful framework for setting goals.

I feel like we've finally got the words to reflect what's really happening here at Kathmandu. I feel it adds authenticity and meaning to the work we're doing.

Sustainability highlights



COMPLETED ESG MATERIALITY ASSESSMENT



COMMITTED TO LARGEST SUSTAINABILITY LINKED LOAN IN NZ



LAUNCHED WETSUIT TAKE-BACK PROGRAM



WITH TERRACYCLE



Certified



Corporation



CERTIFIED CARBON ZERO



For more information, refer to the Kathmandu Holdings Limited 2021 Sustainability Report.

1. Committed to largest syndicated sustainability linked loan at time of signing; 2. Certified carbon zero under the Toitu CarbonZero programme for our operation footprint. Scope 1,2 and mandatory scope 3 emissions; 3. Leather sourced from Leather Working Group tanneries; a not-for-profit organisation responsible for a leading environmental certification for the leather manufacturing industry.



Founded in 1969 by Brian “Sing Ding” Singer and Doug “Claw” Warbrick, Rip Curl is one of the world’s most recognised and respected brands. It has been at the forefront of the surf and snow scenes since its creation.

Rip Curl is a company for, and about, the crew on The Search. The Search is the driving force that led to the creation of Rip Curl, and it lives in the spirit of everything the Rip Curl crew do. It’s what makes Rip Curl unique. It defines who we are. The products we make, the events we run, the riders we support and the people we reach globally, are all a part of that Search that Rip Curl is on.

Made by surfers for surfers, Rip Curl’s vision is to be regarded as the Ultimate Surfing Company in all that we do.



TOTAL SALES

NZD

\$490.4m

ONLINE SALES

NZD

\$33.5m

Representing **12.5%** of direct to consumer sales.

CHANNELS

160 owned stores

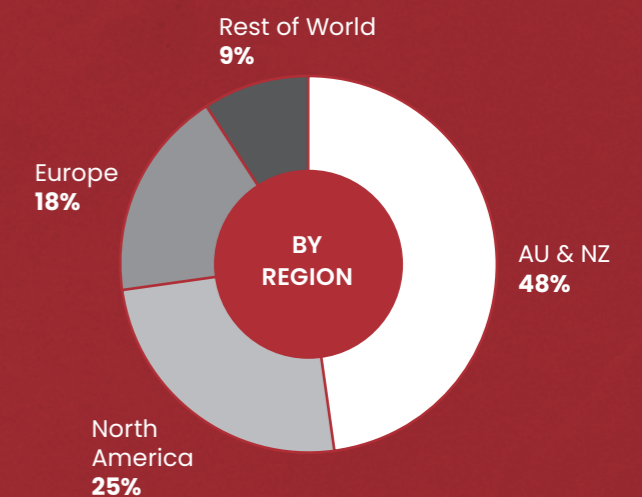
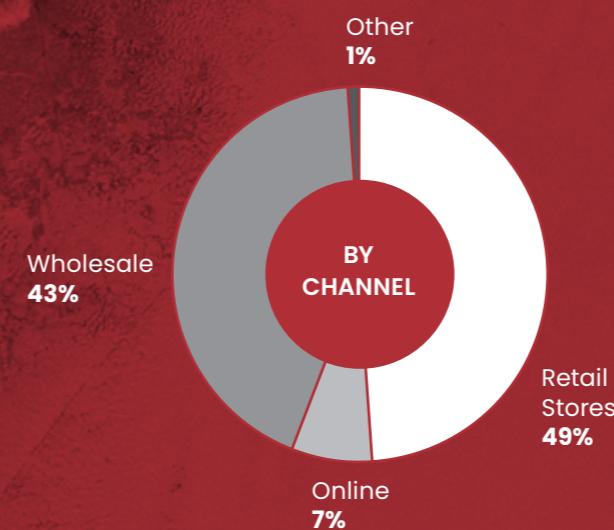
207 licensed stores

20 JV stores

6 direct to consumer websites

5,958 wholesale doors

FY21 SALES MIX





Kathmandu is a leading global outdoor lifestyle brand whose journey began in Aotearoa over thirty years ago.

We're on a mission to improve the wellbeing of the world by getting more people 'out there' in nature. The outdoors has a positive transformative effect on all of us. It makes us more happy, open, free and fun. When we spend time out there our stress goes down, our empathy goes up, we become more creative and we feel happier.

That's why we're all about creating the best, sustainably made outdoor gear – to get more people to experience nature's benefits more often.

Kathmandu's vision is to be the worlds most loved outdoor brand.



TOTAL SALES
NZD

\$354.0m

ONLINE SALES
NZD

\$56.8m

Representing **15.8%** of direct to consumer sales.

CHANNELS

160 owned stores

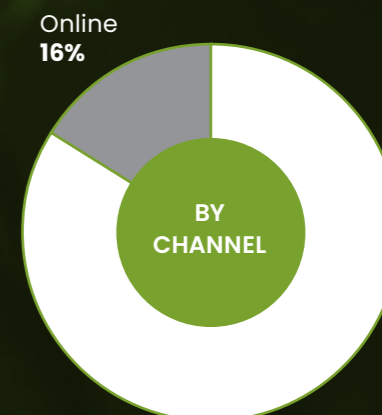
4 direct to consumer websites

28 wholesale doors

BRAND

2.1m active Summit Club members

FY21 SALES MIX



Retail Stores
84%



Oboz began in 2007 in the small town of Bozeman, Montana (Outside + Bozeman = Oboz) and has quickly grown to be a leading North American brand of handmade outdoor footwear. Oboz continues to differentiate itself by pairing a focus on expertly designed and constructed footwear with strong corporate responsibility.

A vision that began fourteen years ago in Bozeman, Montana now has roots around the world.

Our "True To The Trail®" philosophy is the compass heading that guides everything we do. From building great fitting footwear to how we give back to our community and the way we treat each other and our planet. It's a mindset that grounds us in what's most important - doing things the right way, having fun, and exploring our path in life. Because any other way, just wouldn't be true to the trail.



TOTAL SALES
NZD
\$78.4m

CHANNELS

2,129 wholesale doors

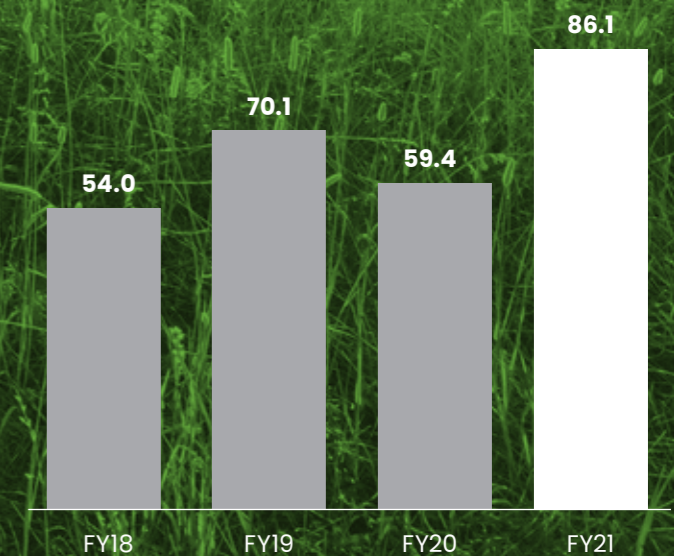
Direct to Consumer online store launched April 2021

BRAND

20% growth in social media audience in 2H FY21

SALES

NZD \$m constant currency¹
+16.8% CAGR (FY18 - FY21)



1. Constant currency uses NZD/USD FY20 conversion rate 0.636 to convert Oboz USD results to NZD (FY21 actual conversion rate 0.699).

The Board



1

1 David Kirk

Chairman

David is the Co-founder and Managing Partner of Bailador Investment Management and is Chairman of Bailador Technology Investments, Forsyth Barr Group, and the NZ Rugby Players Association. He sits on the Board of various Bailador portfolio companies and charitable organisations including KiwiHarvest and the Sydney Festival.



2

David's Executive Management career included roles as the CEO of Fairfax Media and CEO and Managing Director PMP. David was Chief Policy Advisor to the Prime Minister of New Zealand from 1992 to 1994 and was a management consultant with McKinsey & Company in London prior to that. David's past roles include the Chairman of Trade Me Group. David is a Rhodes Scholar with degrees in Medicine from Otago University and Philosophy, Politics and Economics from Oxford University.



3

2 Philip Bowman

Non-executive Director

Philip has extensive experience in retail including 15 years as a director of Burberry. Other past roles include CFO of Bass, CEO of Bass Taverns, Executive Chairman of Liberty PLC, CEO of Allied Domecq, CEO of Scottish Power, CEO of Smiths Group and Chairman of Coral Eurobet and Miller Group. He has also held office as an independent director of BSKYB, Scottish & Newcastle Group and Berry Bros. & Rudd.

He currently sits on the boards of Ferrovial SA, Better Capital PCC and is Chairman of Sky Network Television, Majid al Futtaim Properties and Tegel Group Holdings.



4

3 John Harvey

Non-executive Director

John is a professional Director with a background in accounting and professional services. He has over 35 years professional experience, including 23 years as a partner of PricewaterhouseCoopers where he also held a number of leadership and governance roles.

John retired from PwC in 2009. John has extensive experience in financial reporting, governance, information systems and processes, initial public offerings, business evaluation, acquisitions and mergers.

John is currently a non-executive Director of Stride Property, Investore Property, Heartland Bank and Napier Port Holdings. Former non-executive director roles include HT&E (formerly APN News & Media), Port Otago, Ballance Agri-Nutrients and New Zealand Opera.



5



6

4 Brent Scrimshaw

Non-executive Director

Brent has extensive experience leading and growing consumer brands around the world including an 18-year career with Nike Inc across Marketing, Commerce and General Management in three continents. He led Brand marketing for Nike Pacific, was the Regional GM for Nike North America in New York, was also the Chief Marketing Officer for Nike EMEA. Brent also served as Vice President and Chief Executive of Nike Western Europe leading Nike's European operations from Amsterdam. Brent subsequently founded Unscriptd, a sports technology and media business sold to The Players' Tribune (a large USA media company) in 2019. He was previously a director of Action Sports Co Fox Head Inc in Irvine California and a non-executive director of Catapult International (CAT).

Brent is currently the CEO of Eneo Group (EGG) and currently holds a Non-Executive Director role with ASX listed Rhinomed (RNO).

5 Andrea Martens

Non-executive Director

Andrea has extensive executive leadership experience having spent over 20 years working with some of the world's best known brands and organisations. She is currently the CEO of ADMA and has previously held roles as the Global Chief Marketing Officer for Jurlique International, and Managing Director and VP Marketing, Home and Personal Care for Unilever Australia and New Zealand.

Andrea is also a member of the Australian Institute of Company Directors and named as one of the top 50 CMOs in Australia by CMO Magazine. Andrea was appointed to the board of HYG Holdco Pty Limited (trading as Hoyts) in July 2021.

6 Michael Daly

Managing Director and Group Chief Executive Officer

Michael joined Rip Curl in 2002 and fulfilled the roles of Chief Financial Officer and then Chief Operating Officer before being appointed as the Chief Executive Officer of Rip Curl in January 2013. While based predominantly in the Torquay head office, Michael spent over two years in the USA for Rip Curl. Prior to joining Rip Curl, Michael spent 10 years with PricewaterhouseCoopers across Australia and the USA specialising in servicing mining industry clients with debt or equity registered in the USA. Michael was appointed Group Chief Executive Officer and Managing Director of Kathmandu Holdings in May 2021.

Management team



Michael Daly
Group
Chief Executive Officer



Brooke Farris
Rip Curl
Chief Executive Officer
(appointed 16th
August 2021)



Reuben Casey
Kathmandu
Chief Executive Officer



Amy Beck
Oboz
President



Chris Kinraid
Group
Chief Financial Officer



Jolann Van Dyk
Group
Chief Information Officer



Tony Roberts
Group
Legal Counsel



Frances Blundell
General Manager ESG
and Company Secretary
(appointed 1st August 2021)



Financial statements

For the Year Ended 31 July 2021



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 Listing Rules to explain a particular feature of the financial statements. The notes which 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

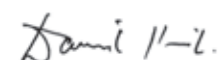
For the Year Ended 31 July 2021

Authorisation for Issue

The Board of Directors authorised the issue of these Consolidated Financial Statements on 21 September 2021.

Approval by Directors

The Directors are pleased to present the Consolidated Financial Statements of Kathmandu Holdings Limited for the year ended 31 July 2021 on pages 25 to 71.



21 September 2021

David Kirk

Date



21 September 2021

Michael Daly

Date

For and on behalf of the Board of Directors

Consolidated Statement of Comprehensive Income

For the Year Ended 31 July 2021

| | Section | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|---------|------------------|------------------|
| Sales | 2.2 | 922,792 | 801,524 |
| Cost of sales | | (381,170) | (334,493) |
| Gross profit | | 541,622 | 467,031 |
| Other income | 2.2 | 29,165 | 27,369 |
| Selling expenses | 1.2.1 | (217,115) | (193,405) |
| Administration and general expenses | 1.2.1 | (145,641) | (151,537) |
| | | (333,591) | (317,573) |
| Earnings before interest, tax, depreciation, and amortisation | | 208,031 | 149,458 |
| Depreciation and amortisation | 3.2-3.4 | (115,847) | (103,585) |
| Earnings before interest and tax | | 92,184 | 45,873 |
| Finance income | | 834 | 449 |
| Finance expenses | | (17,311) | (23,822) |
| Finance costs - net | 4.1.1 | (16,477) | (23,373) |
| Profit before income tax | | 75,707 | 22,500 |
| Income tax expense | 2.3 | (12,278) | (13,632) |
| Profit after income tax | | 63,429 | 8,868 |
| Profit for the year attributable to: | | | |
| Shareholders of the Company | | 63,066 | 8,134 |
| Non-controlling interest | | 363 | 734 |
| Other comprehensive income / (expense) that may be recycled through profit or loss: | | | |
| Movement in cash flow hedge reserve | 4.3.2 | 6,482 | (9,259) |
| Movement in foreign currency translation reserve | 4.3.2 | (17,527) | 258 |
| Movement in other reserves | 4.3.2 | 14 | (61) |
| Other comprehensive expense for the year, net of tax | | (11,031) | (9,062) |
| Total comprehensive income / (expense) for the year | | 52,398 | (194) |
| Total comprehensive income / (expense) for the year attributable to: | | | |
| Shareholders of the Company | | 52,118 | (932) |
| Non-controlling interest | | 280 | 738 |
| Basic earnings per share (restated) | 2.4 | 8.9cps | 1.6cps |
| Diluted earnings per share (restated) | 2.4 | 8.8cps | 1.6cps |
| Weighted average basic ordinary shares outstanding ('000) (restated) | 2.4 | 709,001 | 493,347 |
| Weighted average diluted ordinary shares outstanding ('000) (restated) | 2.4 | 713,006 | 494,582 |

Consolidated Statement of Changes in Equity

For the Year Ended 31 July 2021

| | Share capital NZ\$'000 | Cash flow hedge reserve NZ\$'000 | Foreign currency translation reserve NZ\$'000 | Share- based payments reserve NZ\$'000 | Other reserves NZ\$'000 | Retained earnings NZ\$'000 | Non- controlling interest NZ\$'000 | Total equity NZ\$'000 |
|---|---------------------------|---|---|--|-------------------------------|----------------------------------|---|-----------------------------|
| Balance as at 31 July 2019 | 251,113 | 4,118 | (12,272) | 1,983 | - | 197,120 | - | 442,062 |
| Profit after tax | - | - | - | - | - | 8,134 | 734 | 8,868 |
| Other comprehensive income | - | (9,259) | 254 | - | (61) | - | 4 | (9,062) |
| Dividends paid | - | - | - | - | - | (27,209) | - | (27,209) |
| Issue of share capital | 375,267 | - | - | (1,666) | - | - | - | 373,601 |
| Share based payment expense | - | - | - | 378 | - | - | - | 378 |
| Deferred tax on share-based payment transactions | - | - | - | (87) | - | - | - | (87) |
| Non-controlling interest on acquisition | - | - | - | - | - | - | 3,335 | 3,335 |
| Disposal of non-controlling interest | - | - | - | - | - | - | (66) | (66) |
| Transition to NZ IFRS 16 | - | - | - | - | - | (12,630) | - | (12,630) |
| Balance as at 31 July 2020 | 626,380 | (5,141) | (12,018) | 608 | (61) | 165,415 | 4,007 | 779,190 |
| Profit after tax | - | - | - | - | - | 63,066 | 363 | 63,429 |
| Other comprehensive income | - | 6,482 | (17,444) | - | 14 | - | (83) | (11,031) |
| Dividends paid | - | - | - | - | - | (14,180) | - | (14,180) |
| Issue of share capital | - | - | - | - | - | - | - | - |
| Share based payment expense | - | - | - | 1,798 | - | - | - | 1,798 |
| Lapsed share options | - | - | - | (58) | - | 58 | - | - |
| Deferred tax on share-based payment transactions | - | - | - | 289 | - | - | - | 289 |
| Acquisition of remaining shares in non-controlling interest | - | - | - | - | - | (427) | (217) | (644) |
| Balance as at 31 July 2021 | 626,380 | 1,341 | (29,462) | 2,637 | (47) | 213,932 | 4,070 | 818,851 |

Consolidated Balance Sheet

As at 31 July 2021

| | Section | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--------------------------------------|---------|------------------|------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 3.1.2 | 142,614 | 231,885 |
| Trade and other receivables | 3.1.3 | 68,931 | 73,668 |
| Inventories | 3.1.1 | 216,545 | 228,793 |
| Derivative financial instruments | 4.2 | 5,285 | 53 |
| Current tax asset | | 3,430 | 3,790 |
| Other current assets | 3.1.5 | 2,320 | 2,799 |
| Total current assets | | 439,125 | 540,988 |
| Non-current assets | | | |
| Trade and other receivables | 3.1.3 | 1,549 | 3,945 |
| Property, plant and equipment | 3.2 | 79,284 | 88,458 |
| Intangible assets | 3.3 | 688,551 | 689,935 |
| Deferred tax assets | 2.3 | 13,977 | 5,380 |
| Right-of-use assets | 3.4.1 | 242,677 | 258,699 |
| Total non-current assets | | 1,026,038 | 1,046,417 |
| Total assets | | 1,465,163 | 1,587,405 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 3.1.6 | 149,206 | 149,850 |
| Derivative financial instruments | 4.2 | 1,079 | 7,414 |
| Current tax liabilities | | 10,159 | 10,245 |
| Current lease liabilities | 3.4.2 | 75,572 | 78,035 |
| Total current liabilities | | 236,016 | 245,544 |
| Non-current liabilities | | | |
| Non-current trade and other payables | 3.1.6 | 14,818 | 14,413 |
| Interest bearing liabilities | 4.1 | 105,597 | 241,270 |
| Deferred tax liabilities | 2.3 | 86,182 | 86,401 |
| Non-current lease liabilities | 3.4.2 | 203,699 | 220,587 |
| Total non-current liabilities | | 410,296 | 562,671 |
| Total liabilities | | 646,312 | 808,215 |
| Net assets | | 818,851 | 779,190 |
| EQUITY | | | |
| Contributed equity - ordinary shares | 4.3.1 | 626,380 | 626,380 |
| Reserves | 4.3.2 | (25,531) | (16,612) |
| Retained earnings | | 213,932 | 165,415 |
| Non-controlling interest | | 4,070 | 4,007 |
| Total equity | | 818,851 | 779,190 |

Consolidated Statement of Cash Flows

For the Year Ended 31 July 2021

| | Section | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|---------|------------------|------------------|
| Cash flows from operating activities | | | |
| Cash was provided from: | | | |
| Receipts from customers | | 920,374 | 823,951 |
| Government grants received | | 23,892 | 21,266 |
| Interest received | | 834 | 449 |
| Income tax received | | 1,050 | 1,379 |
| | | 946,150 | 847,045 |
| Cash was applied to: | | | |
| Payments to suppliers and employees | | 722,656 | 637,828 |
| Income tax paid | | 24,987 | 16,897 |
| Interest paid | | 15,435 | 21,979 |
| | | 763,078 | 676,704 |
| Net cash inflow from operating activities | | 183,072 | 170,341 |
| Cash flows from investing activities | | | |
| Cash was provided from: | | | |
| Proceeds from sale of property, plant and equipment | | 2 | 61 |
| Proceeds from sale of non-controlling interest | | - | 141 |
| | | 2 | 202 |
| Cash was applied to: | | | |
| Purchase of property, plant and equipment | 3.2 | 15,044 | 15,399 |
| Purchase of intangibles | 3.3 | 20,509 | 4,463 |
| Acquisition of subsidiaries | 5.1 | 1,029 | 376,121 |
| | | 36,582 | 395,983 |
| Net cash (outflow) from investing activities | | (36,580) | (395,781) |
| Cash flows from financing activities | | | |
| Cash was provided from: | | | |
| Proceeds from borrowings | | - | 506,746 |
| Proceeds from share issues | | - | 340,646 |
| | | - | 847,392 |
| Cash was applied to: | | | |
| Dividends paid | | 14,180 | 27,209 |
| Repayment of borrowings | | 128,894 | 293,757 |
| Repayment of lease liabilities | | 89,749 | 77,290 |
| | | 232,823 | 398,256 |
| Net cash (outflow) / inflow from financing activities | | (232,823) | 449,136 |
| Net (decrease) / increase in cash and cash equivalents held | | (86,331) | 223,696 |
| Opening cash and cash equivalents | | 231,885 | 6,230 |
| Effect of foreign exchange rates | | (2,940) | 1,959 |
| Closing cash and cash equivalents | 3.1.2 | 142,614 | 231,885 |

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

| | Section | 2021 NZ\$'000 | 2020 NZ\$'000 |
|---|------------|------------------|------------------|
| Profit after taxation | | 63,429 | 8,868 |
| <i>Movement in working capital:</i> | | | |
| (Increase) / decrease in trade and other receivables | | 5,604 | 24,027 |
| (Increase) / decrease in inventories | | 8,190 | 20,305 |
| (Increase) / decrease in other current assets | | 431 | - |
| Increase / (decrease) in trade and other payables | | 3,504 | 9,732 |
| Increase / (decrease) in current tax liability | | 398 | 3,692 |
| | | 18,127 | 57,756 |
| <i>Add non-cash items:</i> | | | |
| Depreciation of property, plant and equipment | 3.2 | 20,851 | 19,666 |
| Amortisation of intangibles | 3.3 | 8,614 | 7,539 |
| Depreciation of right-of-use assets | 3.4.1 | 86,382 | 76,380 |
| Impairment of assets | 3.2, 3.4.1 | 1,910 | 2,050 |
| Paycheck Protection Program (PPP) loan forgiveness | 4.1 | (4,025) | - |
| Foreign currency translation of working capital balances | | (3,319) | 214 |
| Increase / (decrease) in deferred taxation | | (12,057) | (5,577) |
| Employee share-based remuneration | 6.3 | 1,798 | 378 |
| Loss on sale of property, plant and equipment and intangibles | 3.2, 3.3 | 1,362 | 3,067 |
| | | 101,516 | 103,717 |
| Cash inflow from operating activities | | 183,072 | 170,341 |

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

Kathmandu Holdings Limited (the Company) 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. Kathmandu Holdings 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 21 September 2021.

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 Kathmandu Holdings 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 on the following pages.

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 |
|---|---------|
| Taxation – provision for tax payable | 2.3 |
| Inventory – estimates of obsolescence | 3.1.1 |
| Trade and other receivables – allowance for lifetime expected credit losses | 3.1.3 |
| Goodwill and brand – assumptions underlying recoverable value | 3.3 |
| Leases – judgment applied to lease term | 3.4 |
| Business combinations – purchase price allocation | 5.1 |

Foreign currency translation

The results and financial position of all the Group entities (none of which has 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 |
|---|---------|
| Earnings per share restatement | 2.4 |
| Finalisation of purchase price allocation | 5.1 |
| New standards and interpretations first applied in the period | 6.8 |

Selling and administration expense classification

During the year the Group identified an error in the surf segment's classification of selling expenses and administration and general expenses in the previously reported financial statements for the year ended 31 July 2020. As a result, the prior period selling expenses have increased by \$24,113,000 with a corresponding decrease in administration and general expenses to align with the current year and the Group policy. The restatement has no impact on total expenditure.

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

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

The Group's current accounting policy is to record these configuration and customisation costs as part of the cost of an intangible asset and amortise these costs over the useful life of the software assets. The Group has commenced a review process to quantify the impact of this agenda decision on the financial statements of the Group; however, given the short timeframe and the complexity involved, this has not been finalised as at the date of this report.

It is anticipated that this exercise will be completed in the second quarter of the 2022 financial year. In the last three years the Group has capitalised approximately \$30 million in relation to cloud computing arrangements of which a subset may relate to customisation and configuration of cloud solutions and may need to be reclassified to operating expense. Once the impact has been fully quantified the Group will report the impact in its interim financial statements for the period ended 31 January 2022.

1.3 Impact of COVID-19

COVID-19 continues to have an impact on the Group, with local and global restrictions on movement, travel and gatherings resulting in a sustained reduction in footfall. Stores across our network continue to open and close based on government mandated lockdowns and closures.

There continues to be uncertainties due to the COVID-19 pandemic that affects the Group's key estimates and judgements, including the following:

- Intangible assets – the ability to achieve future forecasts and the consequential impacts on the carrying value of goodwill and other finite life intangible assets (note 3.3)
- Receivables – the ability of wholesale customers to pay (note 3.1.3)
- Leases – certain landlords have provided the Group with rent concessions (note 2.2)

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. To address any risk of extended store closures across Australia and New Zealand into and beyond the key Christmas trading, the Group has worked proactively with its banking syndicate to reduce the fixed cover charge ratio (FCCR) from 1.5x to 1.25x for the January 2022 measurement period.

Taking into consideration the current trading results, the net cash (excluding lease liabilities) of \$37,017,000 and liquidity of \$329,729,000 at 31 July 2021 (refer note 4.1), the financial statements continue to be prepared on a going concern basis.

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 which 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. These operating segments have been determined based on the reports reviewed by the Group Chief Executive Officer and Group Executive Management team.

Outdoor – including the Kathmandu and Oboz brands. This segment designs, markets,

retails and wholesales apparel, footwear and equipment for outdoor travel and adventure.

Surf – including the Rip Curl brand and the Ozmosis multi-brand retailer. This segment designs, manufactures, wholesales and retails surfing equipment and apparel.

Corporate – this segment represents group costs, holding companies and consolidation eliminations and constitutes other business activities that do not fall within outdoor or surf segments including goodwill, brand and customer relationships.

| 31 July 2021 | Outdoor NZ\$'000 | Surf NZ\$'000 | Corporate NZ\$'000 | Total NZ\$'000 |
|----------------------------------|---------------------|------------------|-----------------------|-------------------|
| Sales from external customers | 432,354 | 490,438 | - | 922,792 |
| EBITDA | 109,667 | 103,991 | (5,627) | 208,031 |
| Depreciation and amortisation | 65,770 | 44,869 | 5,208 | 115,847 |
| EBIT | 43,897 | 59,122 | (10,835) | 92,184 |
| Income tax expense | 15,668 | 3,794 | (7,184) | 12,278 |
| Total segment assets | 700,470 | 365,920 | 398,773 | 1,465,163 |
| <i>Total assets include:</i> | | | | |
| Non-current assets | 488,415 | 149,226 | 388,397 | 1,026,038 |
| Additions to non-current assets | 58,929 | 53,455 | 22 | 112,406 |
| Total segment liabilities | 278,967 | 261,203 | 106,142 | 646,312 |
| 31 July 2020 | Outdoor NZ\$'000 | Surf NZ\$'000 | Corporate NZ\$'000 | Total NZ\$'000 |
| Sales from external customers | 485,785 | 315,739 | - | 801,524 |
| EBITDA | 128,192 | 35,769 | (14,503) | 149,458 |
| Depreciation and amortisation | 63,291 | 36,362 | 3,932 | 103,585 |
| EBIT | 64,901 | (593) | (18,435) | 45,873 |
| Income tax expense | 16,962 | 2,544 | (5,874) | 13,632 |
| Total segment assets | 750,026 | 394,838 | 442,541 | 1,587,405 |
| <i>Total assets include:</i> | | | | |
| Non-current assets | 503,162 | 139,207 | 404,048 | 1,046,417 |
| Additions to non-current assets | 43,446 | 14,355 | - | 57,801 |
| Total segment liabilities | 309,539 | 257,640 | 241,036 | 808,215 |

EBITDA represents earnings before income taxes (a non-GAAP measure), excluding interest income, interest expense, depreciation, and amortisation, as reported in the financial statements. EBIT represents EBITDA less depreciation and amortisation. EBITDA and EBIT are key measurement criteria on which operating segments are reviewed by the Group Chief Executive Officer and Group Executive Management team.

Costs recharged between Group companies are calculated on an arms-length basis. The default basis of allocation is percentage of revenue with other bases being used where appropriate.

Sales from external customers by geographical area

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|---------------|------------------|------------------|
| Australia | 477,054 | 449,930 |
| New Zealand | 120,746 | 133,696 |
| North America | 195,317 | 131,244 |
| UK & Europe | 90,418 | 53,386 |
| Asia | 25,920 | 25,653 |
| South America | 13,337 | 7,615 |
| | 922,792 | 801,524 |

Non-current assets by geographical area

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|---------------|------------------|------------------|
| Australia | 654,760 | 700,938 |
| New Zealand | 181,661 | 171,147 |
| North America | 162,273 | 145,211 |
| UK & Europe | 15,765 | 18,741 |
| Asia | 8,863 | 7,749 |
| South America | 2,716 | 2,631 |
| | 1,026,038 | 1,046,417 |

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. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent level of returns over previous years.

Royalty revenue

Royalty revenue from brand license arrangements is recognised based on a right to access the license. Revenue is recognised over the contract period based on a fixed amount or reliable estimate of sales made by a licensee.

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--------------------|------------------|------------------|
| Sale of goods | 915,570 | 797,410 |
| Royalty revenue | 6,950 | 3,848 |
| Commission revenue | 272 | 266 |
| | 922,792 | 801,524 |

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

Other income

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|-------------------|------------------|------------------|
| Government grants | 27,918 | 26,781 |
| Other | 1,247 | 588 |
| | 29,165 | 27,369 |

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 attaching 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 wage and other subsidies received in response to the impact of COVID-19.

Government grants income recognised during the year includes \$4,025,000 (2020: nil) in relation to US Paycheck Protection Program loans as disclosed in note 4.1.

Government grants of nil (2020: \$5,615,000) relating to the current year are receivable at balance date and have been included in other receivables and prepayments in note 3.1.3.

Employee entitlements

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Wages, salaries, and other short-term benefits | 187,700 | 167,161 |
| Post-employment benefits | 9,692 | 8,629 |
| Employee share-based remuneration | 1,798 | 378 |
| | 199,190 | 176,168 |

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:

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Short-term lease expense | 4,398 | 8,159 |
| Low-value lease expense | 378 | 1,277 |
| Variable lease expense | (431) | 532 |
| Rent concessions and abatements | (7,306) | (4,834) |
| Lease outgoings | 12,938 | 16,460 |
| Depreciation right-of-use asset (note 3.4.1) | 86,382 | 76,380 |
| Interest expense related to lease liabilities (note 3.4.2) | 8,879 | 8,874 |
| | 105,238 | 106,848 |

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 0.4% (2020: 0.5%) 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 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 \$121,291,000 (2020: \$96,191,000).

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 taxes 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:

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Current income tax charge | 24,334 | 19,209 |
| Deferred income tax charge / (credit) | (12,056) | (5,577) |
| Income tax charge reported in the consolidated statement of comprehensive income | 12,278 | 13,632 |

To understand how, in the consolidated statement of comprehensive income, a tax charge of \$12,278,000 (2020: \$13,632,000) arises on profit before income tax of \$75,707,000 (2020: \$22,500,000), the taxation charge that would arise at the standard rate of New Zealand corporate tax is reconciled to the actual tax charge as follows:

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Profit before income tax | 75,707 | 22,500 |
| Income tax calculated at 28% | 21,198 | 6,300 |
| <i>Adjustments to taxation:</i> | | |
| Adjustments due to different rate in different jurisdictions | 1,608 | (88) |
| Non-taxable income | (2,537) | (1,015) |
| Expenses not deductible for tax purposes | 2,973 | 4,561 |
| Utilisation of tax losses by group companies | (1,362) | (38) |
| Tax expense transferred to foreign currency translation reserve | (811) | (13) |
| Adjustments in respect of prior years | 787 | 274 |
| Tax losses not recognised | - | 3,651 |
| Historic tax losses and deferred tax assets recognised | (9,578) | - |
| Income tax charge reported in the consolidated statement of comprehensive income | 12,278 | 13,632 |

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 recognised \$9,578,000 of previously unrecognised Rip Curl US tax losses. The Group has recognised these losses on the basis that the Rip Curl US profitability has improved significantly during the year, and it is probable these losses will be utilised against future taxable profit in the US.

As a result of recognising the deferred tax losses the deferred tax asset at year-end of \$13,977,000 is separately disclosed in the consolidated balance sheet. For consistency the prior period deferred tax asset of \$5,380,000 has also been separately disclosed in the consolidated balance sheet. The deferred tax assets for the year ended 31 July 2020 was previously netted off in the deferred tax liability balance of \$81,021,000.

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

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Movement in cash flow hedge reserve before tax | 11,608 | (13,162) |
| Tax credit / (charge) relating to cash flow hedge reserve | (5,126) | 3,903 |
| Movement in cash flow hedge reserve after tax | 6,482 | (9,259) |
| Foreign currency translation reserve before tax | (17,527) | 258 |
| Tax credit / (charge) relating to foreign currency translation reserve | - | - |
| Movement in foreign currency translation reserve after tax | (17,527) | 258 |
| Other reserves before tax | 14 | (61) |
| Tax credit / (charge) relating to other reserves | - | - |
| Movement in other reserves after tax | 14 | (61) |
| Total other comprehensive income / (expense) before tax | (5,905) | (12,965) |
| Total tax credit / (charge) on other comprehensive income | (5,126) | 3,903 |
| Total other comprehensive income / (expense) after tax | (11,031) | (9,062) |
| Current tax | - | - |
| Deferred tax | (5,126) | 3,903 |
| Total tax credit / (charge) on other comprehensive income | (5,126) | 3,903 |

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 NZ\$'000 | Intangibles NZ\$'000 | Leases NZ\$'000 | Other temporary differences NZ\$'000 | Reserves NZ\$'000 | Tax losses NZ\$'000 | Total NZ\$'000 |
|--|-------------------------------------|-------------------------|--------------------|---|----------------------|------------------------|-------------------|
| As at 31 July 2019 | 2,279 | (54,004) | - | 6,870 | (996) | - | (45,851) |
| Recognised in the consolidated statement of comprehensive income | (695) | 1,402 | 421 | 4,449 | - | - | 5,577 |
| Recognised in other comprehensive income | - | - | - | - | 3,903 | - | 3,903 |
| Recognised directly in equity | (87) | - | - | - | - | - | (87) |
| Deferred tax on transition to NZ IFRS 16 | - | - | 10,813 | - | - | - | 10,813 |
| Deferred tax on business combinations (note 5.1) | 1,963 | (62,598) | - | 5,635 | - | - | (55,000) |
| Exchange differences | 33 | (687) | 13 | 265 | - | - | (376) |
| As at 31 July 2020 | 3,493 | (115,887) | 11,247 | 17,219 | 2,907 | - | (81,021) |
| Recognised in the consolidated statement of comprehensive income | 1,243 | 1,401 | 1,695 | 639 | - | 7,078 | 12,056 |
| Recognised in other comprehensive income | - | - | - | - | (5,126) | - | (5,126) |
| Recognised directly in equity | 289 | - | - | - | - | - | 289 |
| Exchange differences | (67) | 2,258 | (202) | (300) | 27 | (119) | 1,597 |
| As at 31 July 2021 | 4,958 | (112,228) | 12,740 | 17,558 | (2,192) | 6,959 | (72,205) |

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:

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|----------------------------------|------------------|------------------|
| Deductible temporary differences | - | 2,060 |
| Tax losses | 5,548 | 18,370 |
| | 5,548 | 20,430 |

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.

Imputation credits

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|---|------------------|------------------|
| Imputation credits available for use in subsequent reporting periods based on a tax rate of 28% | 66 | (6,743) |

The above amounts represent the balance of the imputation account as at 31 July 2021, 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.

In the prior period tax payments of \$6,808,000 had been financed at year end, which once transferred to the Inland Revenue Department resulted in a positive imputation balance.

The balance of Australian franking credits able to be used by the Group in subsequent periods as at 31 July 2021 is A\$11,502,000 (2020: A\$2,691,000).

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 \$63,065,666 (2020: \$8,133,582) by the weighted average number of ordinary shares in issue during the year of 709,001,384 (2020: 493,346,733).

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.

| | 2021 '000 | 2020 '000 |
|---|----------------|----------------|
| Weighted average number of basic ordinary shares in issue | 709,001 | 493,347 |
| <i>Adjustment for:</i> | | |
| Share options / performance rights | 4,005 | 1,235 |
| | 713,006 | 494,582 |

The Group has restated the prior year basic and diluted EPS to reflect the impact of finalisation of the Rip Curl purchase price allocation as disclosed in note 5.1.

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. Stock 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:

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|-------------------------------|------------------|------------------|
| Raw materials and consumables | 3,297 | 2,528 |
| Work in progress | 1,324 | 2,397 |
| Trading stock | 189,221 | 209,958 |
| Goods in transit | 22,703 | 13,910 |
| | 216,545 | 228,793 |

Inventory has been reviewed for obsolescence and a provision of \$5,393,000 (2020: \$4,580,000) has been made.

3.1.2 Cash and cash equivalents

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Cash on hand | 489 | 482 |
| Cash at bank | 140,617 | 230,429 |
| Short term investments convertible to cash | 1,508 | 974 |
| | 142,614 | 231,885 |

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

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|------------------|------------------|------------------|
| AUD | 82,056 | 163,503 |
| USD | 27,350 | 22,275 |
| EUR | 10,455 | 6,108 |
| NZD | 9,626 | 32,330 |
| THB | 3,241 | 3,371 |
| IDR | 2,852 | 1,706 |
| BRL | 2,112 | 1,126 |
| GBP | 1,897 | 548 |
| CAD | 1,476 | 394 |
| Other currencies | 1,549 | 524 |
| | 142,614 | 231,885 |

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.

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--------------------------------------|------------------|------------------|
| Current | | |
| Trade receivables | 61,084 | 62,143 |
| Allowance for expected credit losses | (5,680) | (10,329) |
| Other receivables and prepayments | 13,527 | 21,854 |
| | 68,931 | 73,668 |
| Non-current | | |
| Other debtors | 1,549 | 3,945 |
| | 1,549 | 3,945 |

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

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

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|------------------|------------------|------------------|
| USD | 30,551 | 22,466 |
| AUD | 12,858 | 20,853 |
| EUR | 11,449 | 13,258 |
| BRL | 3,645 | 2,991 |
| THB | 3,125 | 4,406 |
| CAD | 2,402 | 2,326 |
| GBP | 2,163 | 1,650 |
| NZD | 1,992 | 5,101 |
| JPY | 1,173 | 2,246 |
| IDR | 1,122 | 1,997 |
| Other currencies | - | 319 |
| | 70,480 | 77,613 |

Allowance for expected credit losses

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|---|------------------|------------------|
| Opening balance | (10,329) | (115) |
| Allowance recognised on acquisition (note 5.1) | - | (5,639) |
| Additional allowance recognised in the consolidated statement of comprehensive income | (3,104) | (6,152) |
| Receivables written-off during the year | 5,186 | 1,004 |
| Unused provision released to the consolidated statement of comprehensive income during the year | 2,173 | 249 |
| Foreign exchange | 394 | 324 |
| Closing balance | (5,680) | (10,329) |

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):

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|----------------------------------|------------------|------------------|
| Cash and cash equivalents | 142,125 | 231,403 |
| Trade receivables | 55,404 | 51,814 |
| Other receivables | 7,158 | 12,866 |
| Derivative financial instruments | 4,206 | (7,361) |
| | 208,893 | 288,722 |

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 (if available) or to historical information about counterparty default rates:

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|-----------------------------------|------------------|------------------|
| <i>Cash and cash equivalents:</i> | | |
| Standard & Poors - AA- | 104,885 | 207,811 |
| Standard & Poors - A+ | 25,919 | 14,008 |
| Standard & Poors - A | 1,768 | 1,567 |
| Standard & Poors - A- | 197 | - |
| Standard & Poors - BBB+ | 3,359 | 3,822 |
| Standard & Poors - BBB- | 2,912 | 1,790 |
| Standard & Poors - BB | 978 | 1,282 |
| Standard & Poors - BB- | 2,107 | 1,123 |
| | 142,125 | 231,403 |

Trade and other receivables consist of a large number of customers spread across diverse geographical areas.

As at balance sheet date, trade and other receivables of \$15,931,000 (2020: \$27,495,000) were past due. A provision of \$5,680,000 (2020: \$10,329,000) is held against these overdue amounts. Interest is charged on overdue debtors in some instances.

The ageing analysis of these past due trade receivables is:

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|------------------|------------------|------------------|
| 0 to 30 days | 5,301 | 4,825 |
| 30 to 60 days | 2,926 | 3,503 |
| 60 to 90 days | 2,311 | 7,394 |
| 90 days and over | 5,393 | 11,773 |
| | 15,931 | 27,495 |

Due to COVID-19 credit terms have been extended for some customers, which has impacted the aging analysis above. The aging analysis disclosed is based on the original due dates agreed with customers, prior to any extension of credit terms being offered.

In the current year \$4,438,000 of long overdue receivables were written off. These receivables were acquired in the prior period as part of the Rip Curl acquisition and were fully provided for prior to acquisition.

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.

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|---|------------------|------------------|
| Right of return assets | | |
| Opening balance | 2,799 | - |
| Right of return assets recognised on acquisition (note 5.1) | - | 2,803 |
| Additional amounts recognised | - | - |
| Amounts incurred and charged | (431) | - |
| Exchange differences | (48) | (4) |
| | 2,320 | 2,799 |

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.

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|-------------------------------|------------------|------------------|
| Current | | |
| Trade payables | 72,230 | 63,939 |
| Employee entitlements | 27,642 | 21,357 |
| Sundry creditors and accruals | 42,502 | 54,913 |
| Other provisions | 6,832 | 9,641 |
| | 149,206 | 149,850 |
| Non-current | | |
| Employee entitlements | 3,076 | 3,069 |
| Other provisions | 11,742 | 11,344 |
| | 14,818 | 14,413 |

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

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|------------------|------------------|------------------|
| AUD | 68,465 | 86,082 |
| USD | 47,776 | 31,906 |
| NZD | 17,239 | 19,529 |
| EUR | 15,254 | 15,799 |
| BRL | 6,138 | 3,372 |
| THB | 4,751 | 3,569 |
| IDR | 2,334 | 2,167 |
| Other currencies | 2,067 | 1,839 |
| | 164,024 | 164,263 |

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 other miscellaneous amounts that meet the definition of a provision but do not fall into any of the other categories.

| | Warranties NZ\$'000 | Restructuring NZ\$'000 | Lease restoration NZ\$'000 | Sales returns NZ\$'000 | Other NZ\$'000 | Total NZ\$'000 |
|---|------------------------|---------------------------|----------------------------------|------------------------------|-------------------|-------------------|
| Year ended 31 July 2020 | | | | | | |
| Opening balance | - | - | 671 | - | 406 | 1,077 |
| Provision recognised on acquisition (note 5.1) | 1,168 | 2,541 | 5,453 | 6,078 | - | 15,240 |
| Provisions recognised on adoption of NZ IFRS 16 | - | - | 4,686 | - | - | 4,686 |
| Additional provisions recognised | 478 | 1,367 | 633 | 148 | 216 | 2,842 |
| Provisions used during the year | (296) | (2,303) | (191) | - | - | (2,790) |
| Provisions re-measured during the year | (14) | - | (325) | - | - | (339) |
| Foreign exchange | 13 | 70 | 121 | 65 | - | 269 |
| Closing balance | 1,349 | 1,675 | 11,048 | 6,291 | 622 | 20,985 |
| As at 31 July 2020 | | | | | | |
| Current | 1,349 | 1,675 | 193 | 6,291 | 133 | 9,641 |
| Non-current | - | - | 10,855 | - | 489 | 11,344 |
| | 1,349 | 1,675 | 11,048 | 6,291 | 622 | 20,985 |

| | Warranties NZ\$'000 | Restructuring NZ\$'000 | Lease restoration NZ\$'000 | Sales returns NZ\$'000 | Other NZ\$'000 | Total 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 |

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 & leasehold improvements | 5 – 50% |
| Office, plant and equipment | 5 – 50% |
| Furniture and fittings | 10 – 50% |
| Computer equipment | 10 – 60% |

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.

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 2019 | | | | | | |
| Cost | - | 67,974 | 17,936 | 41,726 | 9,633 | 137,269 |
| Accumulated depreciation | - | (40,467) | (6,406) | (22,552) | (7,525) | (76,950) |
| Closing net book value | - | 27,507 | 11,530 | 19,174 | 2,108 | 60,319 |
| Year ended 31 July 2020 | | | | | | |
| Opening net book value | - | 27,507 | 11,530 | 19,174 | 2,108 | 60,319 |
| Acquisition of businesses (note 5.1) | 6,475 | 6,033 | 3,603 | 16,440 | 2,725 | 35,276 |
| Additions | 15 | 6,478 | 3,108 | 5,059 | 739 | 15,399 |
| Disposals | (305) | (621) | (474) | (1,632) | (96) | (3,128) |
| Depreciation | (370) | (7,815) | (2,581) | (7,670) | (1,230) | (19,666) |
| Transfers between categories | - | - | (289) | 289 | - | - |
| Exchange differences | (188) | 184 | 199 | 123 | (60) | 258 |
| Closing net book value | 5,627 | 31,766 | 15,096 | 31,783 | 4,186 | 88,458 |

| | 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 | - |
| Exchange differences | (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 |

Depreciation

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|-----------------------------|------------------|------------------|
| Land and buildings | 596 | 370 |
| Leasehold improvement | 8,369 | 7,815 |
| Office, plant and equipment | 1,289 | 2,581 |
| Furniture and fittings | 8,978 | 7,670 |
| Computer equipment | 1,619 | 1,230 |
| | 20,851 | 19,666 |

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.

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|---|------------------|------------------|
| Loss on sale of property, plant and equipment | 1,337 | 3,067 |

Capital commitments

Capital commitments contracted for at balance sheet date include property, plant and equipment of \$4,110,000 (2020: \$975,000).

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 5-10 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 written off over the useful economic life.

Costs associated with developing or maintaining computer software programs are recognised as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products 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.

Software is amortised using straight-line and diminishing value methods at rates of 20-67%.

Refer to note 1.2.1 for further consideration in respect of the IFRS Interpretations Committee ('IFRIC') agenda decision on configuration and customisation costs incurred in implementing Software-as-a-Service ('SaaS') cloud computing arrangements.

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.

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 NZ\$'000 | Brand NZ\$'000 | Customer relationship NZ\$'000 | Software NZ\$'000 | Other intangibles NZ\$'000 | Total NZ\$'000 |
|--------------------------------------|----------------------|-------------------|--------------------------------------|----------------------|----------------------------------|-------------------|
| As at 31 July 2019 | | | | | | |
| Cost | 191,592 | 185,081 | 1,868 | 33,206 | - | 411,747 |
| Accumulated amortisation | (1,271) | - | (250) | (24,165) | - | (25,686) |
| Closing net book value | 190,321 | 185,081 | 1,618 | 9,041 | - | 386,061 |
| Year ended 31 July 2020 | | | | | | |
| Opening net book value | 190,321 | 185,081 | 1,618 | 9,041 | - | 386,061 |
| Acquisition of businesses (note 5.1) | 91,637 | 169,687 | 39,697 | 917 | 2,883 | 304,821 |
| Additions | - | - | - | 4,463 | - | 4,463 |
| Disposals | - | - | - | - | - | - |
| Amortisation | - | - | (3,932) | (3,607) | - | (7,539) |
| Exchange differences | (199) | 2,355 | (101) | 17 | 57 | 2,129 |
| Closing net book value | 281,759 | 357,123 | 37,282 | 10,831 | 2,940 | 689,935 |
| As at 31 July 2020 | | | | | | |
| Cost | 283,030 | 357,123 | 41,495 | 58,943 | 4,552 | 745,143 |
| Accumulated amortisation | (1,271) | - | (4,213) | (48,112) | (1,612) | (55,208) |
| Closing net book value | 281,759 | 357,123 | 37,282 | 10,831 | 2,940 | 689,935 |
| Year ended 31 July 2021 | | | | | | |
| Opening net book value | 281,759 | 357,123 | 37,282 | 10,831 | 2,940 | 689,935 |
| Additions | - | - | - | 20,509 | - | 20,509 |
| Disposals | - | - | - | (25) | - | (25) |
| Amortisation | - | - | (5,203) | (3,411) | - | (8,614) |
| Exchange differences | (5,358) | (6,996) | (695) | (79) | (126) | (13,254) |
| Closing net book value | 276,401 | 350,127 | 31,384 | 27,825 | 2,814 | 688,551 |
| As at 31 July 2021 | | | | | | |
| Cost | 277,672 | 350,127 | 40,621 | 78,725 | 4,358 | 751,503 |
| Accumulated amortisation | (1,271) | - | (9,237) | (50,900) | (1,544) | (62,952) |
| Closing net book value | 276,401 | 350,127 | 31,384 | 27,825 | 2,814 | 688,551 |

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.

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|-----------------------------|------------------|------------------|
| Loss on sale of intangibles | 25 | - |

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 | |
|-----------------------|------------------|------------------|------------------|------------------|
| | 2021 NZ\$'000 | 2020 NZ\$'000 | 2021 NZ\$'000 | 2020 NZ\$'000 |
| Kathmandu New Zealand | 45,484 | 45,484 | 51,000 | 51,000 |
| Kathmandu Australia | 75,899 | 76,496 | 97,151 | 99,140 |
| Oboz | 65,315 | 68,239 | 35,873 | 37,479 |
| Rip Curl | 89,703 | 91,540 | 166,103 | 169,504 |
| | 276,401 | 281,759 | 350,127 | 357,123 |

For the purposes of goodwill and brand impairment testing, the Group operates as four groups of cash generating units, Kathmandu New Zealand, Kathmandu Australia, Rip Curl and Oboz. The recoverable amount of each cash generating unit (CGU) has been determined based on the fair value less cost of disposal (FVLCOB). Five-year projected cash flows are used to determine the FVLCOB.

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 2022. Cash flows beyond July 2022 are based on three-year business plans presented to the Directors.

The key assumption used:

- The FVLCOB model assume continued COVID-19 disruption in the 2022 financial year and a return to more normalised trading conditions previously experienced in 2023 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 the 2024 financial year, in each scenario the fair value for the CGU exceeds the carrying value.

Other assumptions used:

| | 2021 | | | | 2020 | | | |
|----------------------|------------|------------|--------------|----------|------------|------------|--------------|----------|
| | KMD NZ CGU | KMD AU CGU | Rip Curl CGU | Oboz CGU | KMD NZ CGU | KMD AU CGU | Rip Curl CGU | Oboz CGU |
| Pre-tax WACC | 11.3% | 11.3% | 11.3% | 11.3% | 11.5% | 11.4% | 13.2% | 11.8% |
| Post-tax WACC | 8.1% | 7.9% | 7.9% | 8.2% | 8.3% | 8.0% | 9.3% | 8.6% |
| Terminal growth rate | 2.0% | 2.0% | 2.0% | 2.0% | 1.0% | 1.0% | 1.5% | 1.0% |

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 (2020: 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.

Capital commitments

Capital commitments contracted for at balance sheet date include intangible assets of \$7,271,000 (2020: \$709,000).

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 shorter period of the lease term and useful life of the underlying asset. 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.

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 liability if they are within 2 years and the Group is reasonably certain to take up the option. The average lease term for property leases, including expected rights of renewal, is 8 years (2020: 8 years). The average lease term for vehicle leases is 3 years (2020: 3 years).

3.4.1 Right-of-use assets

The movements in right of use assets were as follows:

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Opening net book value | 258,699 | - |
| Movements on transition | - | 178,774 |
| Right-of-use assets recognised on acquisition (note 5.1) | - | 118,457 |
| Additions and modifications to right-of-use asset | 76,853 | 37,939 |
| Depreciation for the period | (86,382) | (76,380) |
| Impairment for the period | (1,894) | (2,050) |
| Exchange differences | (4,599) | 1,959 |
| Closing net book value | 242,677 | 258,699 |
| Cost | 391,327 | 336,942 |
| Accumulated amortisation & impairment | (148,650) | (78,243) |
| Closing net book value | 242,677 | 258,699 |

3.4.2 Lease liabilities

The movements in lease liabilities were as follows:

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Opening lease liabilities | 298,622 | - |
| Movements on transition | - | 215,389 |
| Lease liabilities recognised on acquisition (note 5.1) | - | 119,725 |
| Additions and modifications to lease liability | 75,601 | 37,886 |
| Interest expense on lease liabilities | 8,879 | 8,874 |
| Repayment of lease liabilities (including interest) | (98,694) | (86,110) |
| Exchange differences | (5,137) | 2,858 |
| Closing lease liabilities | 279,271 | 298,622 |

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 2020 | | | |
| Within one year | 85,909 | (7,874) | 78,035 |
| One to five years | 195,128 | (13,901) | 181,227 |
| Beyond five years | 41,907 | (2,547) | 39,360 |
| | 322,944 | (24,322) | 298,622 |
| Current | | | 78,035 |
| Non-current | | | 220,587 |
| | | | 298,622 |

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:

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|---------------------|------------------|------------------|
| Current portion | - | - |
| Non-current portion | 105,597 | 241,270 |
| | 105,597 | 241,270 |

Group Facility Agreement

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

Interest is payable based on the BKBM rate (NZD borrowings), the BBSY rate (AUD borrowings), or the applicable short-term rate for interest periods less than 30 days, plus a margin of up to 1.25%. The

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

The covenants entered into by the Group require specified calculations of Group earnings before interest, tax, depreciation and amortisation (EBITDA) plus lease rental costs to exceed total fixed charges (net interest expense and lease rental costs) at the end of each half during the financial year. Similarly, EBITDA must be no less than a specified proportion of total net debt at the end of each six-month interim period. The calculations of these covenants are specified in the bank facility agreement of 25 October 2019 as amended and restated on 26 May 2021. The Group has complied with its banking covenants at all measurement points during the year.

The current interest rates, prior to hedging, on the term loans ranged between 0.95% - 1.05% (2020: 1% - 1.25%).

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. The Group believes that these entities met the criteria to qualify for the loans at the date of the application.

The PPP loan is initially received as a loan and once various criteria are met the Group is able to apply for forgiveness of that loan. During the year, the Group has applied for and received forgiveness of the PPP loan for one of the US resident entities and consequently a \$669,000 gain was recognised in the consolidated statement of comprehensive income during the year.

The Group has also applied for forgiveness of the remaining PPP loan prior to balance date as it believes it has provided all the necessary documents to support full forgiveness.

This application has been reviewed and approved by the lender and is in the final approval process with the US Small Business Association (SBA). Whilst the application is still being processed the Group believe it has reasonable assurance that it has met the conditions for forgiveness. Accordingly, the Group has recognised a further gain of \$3,356,000 in the consolidated statement of comprehensive income during the year.

The eligibility and forgiveness of the application being processed remains subject to a possible audit by the federal government at which time the loan could be deemed not to be eligible. In the event of an unfavourable outcome of the forgiveness application the group would be required to repay the PPP loan as well as 1% interest on that loan from the period it was received until the date it was repaid.

Based on loan criteria and the steps taken by the Group above the balance of the PPP loan at 31 July 2021 is nil (2020: \$4,201,000).

Reconciliation of movement in borrowings

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|---------------------------|------------------|------------------|
| Opening balance | 241,270 | 25,500 |
| Net cash flow movement | (128,894) | 212,989 |
| PPP loan forgiven | (4,025) | - |
| Foreign exchange movement | (2,754) | 2,781 |
| Closing balance | 105,597 | 241,270 |

Borrowings maturity analysis

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Principal of interest-bearing liabilities: | | |
| Payable within 1 year | - | - |
| Payable 1 to 2 years | - | 4,201 |
| Payable 2 to 3 years | 105,597 | 237,069 |
| Payable 3 to 4 years | - | - |
| | 105,597 | 241,270 |

4.1.1 Finance costs

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Interest income | (834) | (449) |
| Interest expense on term debt | 2,370 | 4,780 |
| Interest on lease liabilities | 8,879 | 8,874 |
| Other finance costs | 5,358 | 9,246 |
| Net exchange loss / (gain) on foreign currency | 704 | 922 |
| | 16,477 | 23,373 |

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.

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

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Total secured borrowings | 105,597 | 241,270 |
| Less Principal covered by interest rate swaps | - | (5,000) |
| Net principal subject to floating interest rates | 105,597 | 236,270 |

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 (2020: \$54,106).

Summarised 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% (2020: 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 NZ\$'000 | -1% Profit NZ\$'000 | Equity NZ\$'000 | +1% Profit NZ\$'000 | Equity NZ\$'000 |
|--|-----------------------------|---------------------------|--------------------|---------------------------|--------------------|
| As at 31 July 2021 | | | | | |
| Derivative financial instruments (asset) / liability | (4,206) | - | - | - | - |
| Financial assets | | | | | |
| Cash and cash equivalents | 142,614 | (1,027) | - | 1,027 | - |
| | | (1,027) | - | 1,027 | - |
| Financial liabilities | | | | | |
| Interest bearing liabilities | (105,597) | 1,056 | - | (1,056) | - |
| Lease liabilities | (279,271) | 2,793 | - | (2,793) | - |
| | | 3,849 | - | (3,849) | - |
| Net increase / (decrease) | | 2,822 | - | (2,822) | - |

| | Carrying amount NZ\$'000 | -1% Profit NZ\$'000 | Equity NZ\$'000 | +1% Profit NZ\$'000 | Equity NZ\$'000 |
|--|-----------------------------|---------------------------|--------------------|---------------------------|--------------------|
| As at 31 July 2020 | | | | | |
| Derivative financial instruments asset / (liability) | (7,361) | (50) | 38 | 50 | (37) |
| Financial assets | | | | | |
| Cash and cash equivalents | 231,885 | (1,670) | - | 1,670 | - |
| | | (1,670) | - | 1,670 | - |
| Financial liabilities | | | | | |
| Interest bearing liabilities | (241,270) | 2,413 | - | (2,413) | - |
| Lease liabilities | (298,622) | 2,986 | - | (2,986) | - |
| | | 5,399 | - | (5,399) | - |
| Net increase / (decrease) | | 3,679 | 38 | (3,679) | (37) |

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 NZD \$317,831,045 / AUD \$300,986,000 (2020: NZD \$398,818,966 / AUD \$370,104,000) 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 and other payables | 106,583 | - | - | - |
| Interest bearing liabilities | 1,045 | 1,045 | 106,456 | - |
| | 107,628 | 1,045 | 106,456 | - |
| As at 31 July 2020 | | | | |
| Trade and other payables | 109,644 | - | - | - |
| Interest bearing liabilities | 3,007 | 7,197 | 238,060 | - |
| | 112,651 | 7,197 | 238,060 | - |

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 | - | - | - |
| Interest rate swaps | | | | |
| Outflow | - | - | - | - |
| Net inflow / (outflow) | - | - | - | - |
| As at 31 July 2020 | | | | |
| Forward foreign exchange contracts | | | | |
| Inflow | 179,857 | - | - | - |
| Outflow | (187,164) | - | - | - |
| Net inflow / (outflow) | (7,307) | - | - | - |
| Interest rate swaps | | | | |
| Outflow | (51) | - | - | - |
| Net inflow / (outflow) | (51) | - | - | - |

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 fair value gain or loss.

Derivative financial instruments

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Foreign exchange contracts | | |
| Current asset | 5,285 | 53 |
| Current liability | (1,079) | (7,360) |
| Net foreign exchange contracts - cash flow hedge (asset / (liability)) | 4,206 | (7,307) |
| Interest rate swaps | | |
| Current liability | - | (54) |
| Non-current liability | - | - |
| Net interest rate swaps - cash flow hedge (asset / (liability)) | - | (54) |
| Total derivative financial instruments | 4,206 | (7,361) |

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 (2020: \$5,000,000). The fixed interest rate is nil (2020: 1.32%). 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\$117,650,000 / NZ\$164,706,000 (2020: US\$114,460,000 / NZ\$179,803,000).

No material hedge ineffectiveness for interest rate swaps or foreign exchange contracts exists as at balance sheet date (2020: 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 denominated in either New Zealand dollars or Australian dollars and is paid for out of surplus operating cashflows generated in New Zealand or Australia.

Summarised 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% (2020: -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% (2020: -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.

| | | -10% | | +10% | |
|--|-----------------------------|--------------------|--------------------|--------------------|--------------------|
| | Carrying amount NZ\$'000 | Profit NZ\$'000 | Equity NZ\$'000 | Profit NZ\$'000 | Equity NZ\$'000 |
| As at 31 July 2021 | | | | | |
| Derivative financial instruments (asset) / liability | (4,206) | - | (18,755) | - | 15,346 |
| Financial assets | | | | | |
| Cash and cash equivalents | 142,614 | 10,639 | - | (8,705) | - |
| Trade and other receivables | 62,562 | (4,967) | - | 4,064 | - |
| | | 5,672 | - | (4,641) | - |
| Financial liabilities | | | | | |
| Trade and other payables | (164,024) | (11,743) | - | 9,608 | - |
| Interest bearing liabilities | (105,597) | 8,448 | - | (6,912) | - |
| | | (3,295) | - | 2,696 | - |
| Net increase / (decrease) | | 2,377 | (18,755) | (1,945) | 15,346 |

| | | -10% | | +10% | |
|--|-----------------------------|--------------------|--------------------|--------------------|--------------------|
| | Carrying amount NZ\$'000 | Profit NZ\$'000 | Equity NZ\$'000 | Profit NZ\$'000 | Equity NZ\$'000 |
| As at 31 July 2020 | | | | | |
| Derivative financial instruments asset / (liability) | (7,361) | - | (19,160) | - | 15,676 |
| Financial assets | | | | | |
| Cash and cash equivalents | 231,885 | 15,964 | - | (13,062) | - |
| Trade and other receivables | 64,680 | (5,063) | - | 4,143 | - |
| | | 10,901 | - | (8,919) | - |
| Financial liabilities | | | | | |
| Trade and other payables | (164,263) | (11,579) | - | 9,473 | - |
| Interest bearing liabilities | (241,270) | 19,302 | - | (15,792) | - |
| | | 7,723 | - | (6,319) | - |
| Net increase / (decrease) | | 18,624 | (19,160) | (15,238) | 15,676 |

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 2021 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

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Ordinary shares fully paid | 626,380 | 626,380 |
| Opening balance | 626,380 | 251,113 |
| Shares issued under Executive and Senior Management Long-Term Incentive Plan | - | 1,666 |
| Shares issued under share entitlement offers and share placement | - | 340,646 |
| Shares issued as consideration on a business combination (note 5.1) | - | 32,955 |
| Closing balance | 626,380 | 626,380 |

Number of issued shares

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Opening balance | 709,001 | 226,189 |
| Shares issued under Executive and Senior Management Long-Term Incentive Plan | - | 927 |
| Shares issued under share entitlement offers and share placement | - | 470,612 |
| Shares issued as consideration on a business combination (note 5.1) | - | 11,273 |
| Closing balance | 709,001 | 709,001 |

As at 31 July 2021 there were 709,001,384 (2020: 709,001,384) ordinary issued shares in Kathmandu Holdings Limited and these are classified as equity.

No shares (2020: 926,996) 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.

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

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|---|------------------|------------------|
| Cash flow hedging reserve | | |
| Opening balance | (5,141) | 4,118 |
| Revaluation - gross | 5,685 | (3,799) |
| Deferred taxation on revaluation | 2.3 (5,126) | 3,903 |
| Transfer to hedged asset | 5,923 | (9,255) |
| Transfer to net profit - gross | - | (108) |
| Closing balance | 1,341 | (5,141) |
| Foreign currency translation reserve | | |
| Opening balance | (12,018) | (12,272) |
| Currency translation differences - gross | (17,444) | 254 |
| Currency translation differences - taxation | 2.3 - | - |
| Closing balance | (29,462) | (12,018) |
| Share-based payments reserve | | |
| Opening balance | 608 | 1,983 |
| Current year amortisation | 1,798 | 378 |
| Deferred taxation on share options | 2.3 289 | (87) |
| Transfer to share capital on vesting of shares to employees | - | (1,666) |
| Share options / performance rights lapsed | (58) | - |
| Closing balance | 2,637 | 608 |
| Other reserves | | |
| Opening balance | (61) | - |
| Current year expense recognised in other comprehensive income | 14 | (61) |
| Deferred taxation on other comprehensive income | 2.3 - | - |
| Closing balance | (47) | (61) |
| Total reserves | (25,531) | (16,612) |

4.3.3 Dividends

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|------------------------------------|------------------|------------------|
| Prior year final dividend paid | - | 27,209 |
| Current year interim dividend paid | 14,180 | - |
| Dividends paid | 14,180 | 27,209 |

Dividends paid represent NZ\$0.02 per share (2020: NZ \$0.12).

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.

Section 5 Group Structure



Keeping it simple

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

5.1 Acquisition of Rip Curl Group Pty Ltd

On 31 October 2019 Kathmandu Holdings Limited through its wholly owned subsidiary Barrel Wave Holdings Pty Limited acquired 100% of the equity interests in Rip Curl Group Pty Limited and its controlled entities based out of Australia. The total purchase price was A\$350,000,000. The non-controlling interest on acquisition relates to the interest acquired by the Group in Rip Curl joint ventures in New Zealand, Thailand and Europe.

Rip Curl is a designer, manufacturer, wholesaler, and retailer of surfing equipment and apparel, and has a global presence across Australia, New Zealand, North America, Europe, South East Asia and Brazil. The acquisition creates a global outdoor and action sports Group anchored by two iconic Australian brands and provides the opportunity for Kathmandu to considerably diversify its geographic footprint, channels to market and seasonality profile.

The acquisition accounting fair value adjustments were on a provisional basis in the Group's 31 July 2020 consolidated financial statements. The acquisition accounting adjustments have now been finalised and updated to reflect independent valuations performed on the net assets recognised on acquisition.

As a result, the following adjustments have been recognised in the finalised purchase price allocation; an increase in other current assets of \$2,803,000, a decrease in property, plant, and equipment of \$2,253,000, an increase in the right of use asset and lease liability of \$1,161,000, an increase in trade and other payables of \$6,158,000 and a corresponding increase in goodwill \$5,608,000. Finally, in preparing the financial statements for the year ended 31 July 2021 the Group has identified an error in the interim financial statements which has been corrected in these financial statements. The nature of the error related to an overstatement of deferred tax by \$454,000, understatement of current tax by \$2,208,000 and an understatement of goodwill by \$1,754,000. The statement of comprehensive income and cash flows remain unchanged.

The comparatives presented in these financial statements reflect these changes and the resultant cumulative impact as at 31 July 2020 is \$11,000.

Final Purchase Price Allocation

| | NZ\$'000 |
|--|----------------|
| Purchase price | 377,562 |
| Less Net indebtedness adjustment | (78,147) |
| Plus Working capital settlement adjustments | 23,437 |
| Total net consideration | 322,852 |
| <i>Carrying amounts of identifiable assets acquired and liabilities assumed:</i> | |
| Current assets | |
| Cash and cash equivalents | 29,142 |
| Trade and other receivables (net) | 83,361 |
| Inventories (net) | 124,675 |
| Derivative financial instruments | 990 |
| Current tax asset | 6,216 |
| Other current assets | 2,803 |
| Non-current assets | |
| Other receivables | 4,496 |
| Property, plant and equipment | 35,276 |
| Right-of-use assets | 118,457 |
| Brand | 169,687 |
| Customer relationships | 39,697 |
| Other intangibles | 3,800 |
| Current liabilities | |
| Trade and other payables | (84,164) |
| Current tax liability | (2,224) |
| Current lease liabilities | (33,788) |
| Non-current liabilities | |
| Non-current trade and other payables | (7,571) |
| Non-current lease liabilities | (85,937) |
| Interest bearing liabilities | (115,366) |
| Deferred tax | (55,000) |
| Less Non-controlling interest acquired | (3,335) |
| Net assets acquired | 231,215 |
| Goodwill on acquisition | 91,637 |
| Total net consideration | 322,852 |
| Less Cash and cash equivalents acquired | (29,142) |
| Less Consideration paid as shares | (32,955) |
| Plus Indebtedness settled on acquisition | 115,366 |
| Net cash outflow on acquisition | 376,121 |

5.2 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 2021 | Parent % holding 2020 |
|--|------------------------------------|--------------------------|-----------------------|-----------------------|
| Parent entity: | | | | |
| Kathmandu Holdings Limited | √ | New Zealand | | |
| Subsidiaries: | | | | |
| Milford Group Holdings Limited | √ | New Zealand | 100% | 100% |
| Kathmandu Limited | | New Zealand | 100% | 100% |
| Kathmandu Pty Limited | √ | 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 Chermerside 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 (50% share acquired 1 April 2021) | | New Zealand | 100% | 50% |
| 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% |
| Surf Odyssey S.A.R.L (70% share sold in July 2020) | | France | 0% | 0% |
| Rip Surf LDA | | Portugal | 100% | 100% |
| Rip Curl UK Ltd | | United Kingdom | 100% | 100% |
| Rip Curl Germany GMBH | | Germany | 100% | 100% |
| Rip Curl Italy SRL (liquidated) | | Italy | 0% | 100% |
| Rip Curl Nordic AB | | Sweden | 100% | 100% |
| Rip Curl Inc | | United States of America | 100% | 100% |
| Ultra Manufacturing Inc (liquidated) | | Mexico | 0% | 100% |
| Rip Curl Canada Inc | | Canada | 100% | 100% |
| Rip Curl Brazil LTDA | | Brazil | 100% | 100% |

5.3 Deed of Cross Guarantee

Pursuant to ASIC Corporations (wholly owned Companies) Instrument 2016/785, the Australian-incorporated wholly owned subsidiaries listed in note 5.2 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, comprising the Company and controlled entities, which are parties to the Deed of Cross Guarantee, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 31 July 2021, are set out as follows:

Consolidated Statement of Comprehensive Income and Retained Earnings for the year ended 31 July 2021

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Sales | 492,039 | 457,884 |
| Expenses | (439,194) | (425,850) |
| Finance costs - net | (13,601) | (16,249) |
| Profit before income tax | 39,244 | 15,785 |
| Income tax expense | (13,077) | (7,903) |
| Profit after income tax | 26,167 | 7,882 |
| Other comprehensive income | (2,245) | 1,786 |
| Total comprehensive income for the year | 23,922 | 9,668 |
| Opening retained earnings | (60,753) | (34,571) |
| Profit for the year after income tax | 26,167 | 7,882 |
| Dividends paid | (14,180) | (27,209) |
| Share options / performance rights lapsed | 58 | - |
| Adoption of NZ IFRS 16 | - | (6,855) |
| Closing retained earnings | (48,708) | (60,753) |

Consolidated Balance Sheet as at 31 July 2021

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--------------------------------------|------------------|------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 100,627 | 204,918 |
| Trade and other receivables | 14,524 | 23,748 |
| Inventories | 115,886 | 106,825 |
| Derivative financial instruments | 4,044 | 4 |
| Current tax asset | 116 | 3,490 |
| Other current assets | 546 | 922 |
| Total current assets | 235,743 | 339,907 |
| Non-current assets | | |
| Trade and other receivables | 61,711 | 78,460 |
| Investments | 348,611 | 347,481 |
| Property, plant and equipment | 43,230 | 50,747 |
| Intangible assets | 460,819 | 474,495 |
| Right-of-use assets | 133,901 | 156,855 |
| Total non-current assets | 1,048,272 | 1,108,038 |
| Total assets | 1,284,015 | 1,447,945 |
| LIABILITIES | | |
| Current liabilities | | |
| Trade and other payables | 73,797 | 80,400 |
| Derivative financial instruments | 534 | 5,364 |
| Current tax liabilities | 9,037 | 10,036 |
| Current lease liabilities | 53,388 | 56,583 |
| Total current liabilities | 136,756 | 152,383 |
| Non-current liabilities | | |
| Non-current trade and other payables | 7,635 | 7,726 |
| Interest bearing liabilities | 105,597 | 237,069 |
| Loans with related parties | 289,129 | 295,614 |
| Deferred tax | 65,874 | 65,303 |
| Non-current lease liabilities | 106,239 | 128,893 |
| Total non-current liabilities | 574,474 | 734,605 |
| Total liabilities | 711,230 | 886,988 |
| Net assets | 572,785 | 560,957 |
| EQUITY | | |
| Contributed equity - ordinary shares | 626,380 | 626,380 |
| Reserves | (4,887) | (4,670) |
| Retained earnings | (48,708) | (60,753) |
| Total equity | 572,785 | 560,957 |

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

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|------------------------------------|------------------|------------------|
| Salaries | 3,930 | 3,147 |
| Other short-term employee benefits | 452 | 55 |
| Post-employment benefits | 75 | 58 |
| Share-based payments expense | (196) | 378 |
| | 4,261 | 3,638 |

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 Kathmandu Holdings 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 | | | | | |
| 22 Dec 2020 | - | 1,351,890 | - | - | 1,351,890 |
| 9 Jul 2020 | 597,731 | - | - | (276,372) | 321,359 |
| 20 Dec 2018 | 261,388 | - | - | (204,739) | 56,649 |
| 20 Dec 2017 | 374,437 | - | - | (374,437) | - |
| | 1,233,556 | 1,351,890 | - | (855,548) | 1,729,898 |

The performance rights granted on 22 December 2020 are Long Term Incentive components only.

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 |
|-------------|-----------|---------------|---------------|
| 22 Dec 2020 | Tranche 1 | 50% | 50% |
| 9 Jul 2020 | Tranche 1 | 0% | 100% |
| 20 Dec 2018 | Tranche 1 | 50% | 50% |
| 20 Dec 2017 | Tranche 1 | 50% | 50% |

The proportion of rights subject to the relative TSR hurdle is dependent on Kathmandu Holdings 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:

| Kathmandu Holdings 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 | 2021 | 2020 |
|-----------|------------------------------|------------------------------|
| Tranche 1 | 36 months to 1 December 2023 | 36 months to 1 December 2022 |

The fair value of the TSR rights have been valued under a Monte Carlo simulation approach predicting Kathmandu Holdings 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:

| | 2021 | 2020 |
|-----------------------------|-----------|-----------|
| Fair value of TSR rights | \$124,408 | \$119,546 |
| Current price at grant date | \$1.26 | \$1.14 |
| Risk free interest rate | 0.28% | 0.34% |
| Expected life (years) | 3 | 3 |
| Expected share volatility | 73.0% | 69.5% |

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

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

| Tranche | 2021 | 2020 |
|-----------|-------------------------------|----------------|
| Tranche 1 | FY23 EPS relative to FY20 EPS | Not applicable |

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 2021 are as follows:

| EPS growth | 2020 % of rights vesting |
|-----------------|--------------------------|
| < 124% | 0% |
| >= 124%, < 146% | 50% |
| >= 146%, < 168% | 60% |
| >= 168%, < 190% | 70% |
| >= 190%, < 212% | 80% |
| >= 212%, < 233% | 90% |
| >= 233% | 100% |

The fair values of the EPS rights have been assessed as the Kathmandu Holdings 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:

| Grant date | Opening balance | Granted during the year | Vested during the year | Lapsed during the year | Closing balance |
|-------------|-----------------|-------------------------|------------------------|------------------------|------------------|
| 22 Dec 2020 | - | 3,531,015 | - | (64,327) | 3,466,688 |
| 20 Dec 2019 | 654,826 | - | - | (654,826) | - |
| | 654,826 | 3,531,015 | - | (719,153) | 3,466,688 |

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:

| | 2021 | 2020 |
|---|-------------|-------------|
| Grant date | 22 Dec 2020 | 20 Dec 2019 |
| Performance period (year ending) | 31 Jul 2021 | 31 Jul 2020 |
| Vesting date - other Key Management Personnel and Wider Leadership Management | 31 Jul 2022 | 31 Jul 2021 |

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

The non-market performance hurdles set for the year ending 31 July 2021 were met and accordingly \$1,994,000 of expense was recognised in the consolidated statement of comprehensive income.

Expenses arising from equity settled share-based payments transactions

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|--|------------------|------------------|
| Executive Director and Senior Managers | (196) | 378 |
| Key Management Personnel and Wider Leadership Management | 1,994 | - |
| | 1,798 | 378 |

6.4 Contingent liabilities

The Group is subject to litigation incidental to its business, none of which is expected to be material. No provision has been made in the Group's consolidated interim financial statements in relation to any current litigation and the Directors believe that such litigation will not have a material effect on the Group's consolidated interim financial position, results of operations or cash flows. There are \$558,000 of contingent liabilities as at 31 July 2021 (2020: nil).

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:

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|---|------------------|------------------|
| Audit services - PwC | | |
| Group audit - PwC New Zealand | 407 | 434 |
| Acquired balance sheet - PwC New Zealand | - | 85 |
| UK statutory audit - PwC UK | - | 20 |
| Half year review - PwC New Zealand | 75 | 115 |
| | 482 | 654 |
| Audit services - other audit firms | 174 | 138 |
| Non-audit services - PwC | | |
| Taxation services - PwC France & PwC UK | 46 | 118 |
| Revenue certificates - PwC New Zealand | 6 | 11 |
| Banking compliance certificates - PwC New Zealand | 3 | 3 |
| | 55 | 132 |

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.

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.

6.5 Contingent assets

There are no contingent assets as at 31 July 2021 (2020: nil).

6.6 Events occurring after balance sheet date

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

6.7 Supplementary information

Directors' fees

| | 2021 NZ\$'000 | 2020 NZ\$'000 |
|-----------------|------------------|------------------|
| Directors' fees | 790 | 779 |

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

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



Independent auditor's report

To the shareholders of Kathmandu Holdings Limited

Our opinion

In our opinion, the accompanying consolidated financial statements of Kathmandu Holdings Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 July 2021, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 31 July 2021;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of assurance compliance engagement in the respect of bank covenant compliance, agreed upon procedures for store turnover certificates and tax advisory. The provision of these other services has not impaired our independence as auditor of the Group.

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 of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Description of the key audit matter

Impairment testing over indefinite life intangibles, including the impact of COVID-19

The risk that the Group's indefinite life assets of \$626.5 million may be materially impaired is considered a Key Audit Matter, due to the material nature of these assets and the significant judgement exercised by management to:

- assess the appropriate cash generating units (CGU) to consider for testing;
- estimate the future results of the CGUs;
- include the ongoing impact of COVID-19 on revenue and margins;
- allocate shared costs to CGUs; and
- assess the discount rates and terminal growth rates.

As disclosed in note 3.3, the Group assessed the recoverable amount of each CGU as at 31 July 2021 using discounted cash flow valuations on a fair value less cost of disposal (FVLCO) basis.

For all CGUs management performed their own calculation of the WACC as well as the discounted cash flows computation and related sensitivity analysis.

Based on the calculations performed for each CGU, the Group concluded that there was no impairment of goodwill and brand as at 31 July 2021.

The key assumptions used in the impairment testing have been disclosed in note 3.3.

How our audit addressed the key audit matter

Our audit procedures in assessing the indefinite life intangible assets cover all brands and goodwill. For each CGU we:

- obtained an understanding of the processes and controls in place for assessing the recoverability of indefinite life intangibles and confirmed their implementation at year end;
- reviewed management's assessment of CGUs and compared this to our knowledge and understanding of the Group's operations and reporting structure;
- obtained the calculations performed by management and understood the assumptions used in light of the current and forecast outlook for the business;
- used our auditor's expert to independently review the discount and long-term growth rates;
- assessed the reasonableness of management's cash flow assumptions by considering external market forecasts, historical performance and other available information;
- considered the allocation of shared costs to each CGU;
- performed look back analysis to test the historical accuracy of management forecasts and performed sensitivity testing for each CGU; and
- audited the disclosures in the financial statements to ensure they are compliant with the requirements of the relevant accounting standards.



Description of the key audit matter

Inventory existence and valuation including the impact of COVID-19

At 31 July 2021, the Group held inventories of \$216.5 million. Inventory valuation and existence was an audit focus area due to the number of locations that the inventory was held at, the judgement applied in the valuation of inventory on hand, and the continued uncertainty presented by COVID-19 related travel restrictions.

As described in note 3.1.1 of the consolidated financial statements, inventories are carried at the lower of cost and net realisable value on a weighted average basis.

The Group has systems and processes, including a barcode inventory management system, to accurately record inventory movements.

Management typically perform full stocktakes at each store twice a year, with annual full stocktakes taking place at Rip Curl distribution centres.

Daily cycle counts are performed at the Kathmandu New Zealand and Australian distribution centres. For Rip Curl US and Oboz management keep stock at third party warehouses who provide inventory management services.

There are a number of judgements applied in assessing the level of provision for inventory obsolescence and inventory shrinkage losses. Management provide for shrinkage based on historical inventory counts and stocktake shrinkage trends.

How our audit addressed the key audit matter

In responding to the risk over inventory existence and valuation at year end, we:

- observed the stocktake process at selected store locations and undertook our own test counts;
- attended the year end distribution centre count and performed independent test counts for Rip Curl;
- observed the daily stocktake process at the Christchurch and Melbourne Kathmandu distribution centres and undertook our own test counts. We also tested that the daily counts occurred by selecting a sample of days at each location and inspected the count records throughout the year;
- confirmed the level of inventory held at year end directly with third party warehouses for inventory in the United States;
- assessed the inventory shrinkage provision by reviewing the level of inventory write downs during the period. We tested the shrinkage rate used to calculate the provision for each store since the last stocktake by comparing it to the actual shrinkage rate in prior periods;
- evaluated the assumptions made by management, and particularly the key assumption that current shrinkage levels are consistent with historical levels in assessing inventory obsolescence provisions, through an analysis of inventory items by category and age and the level of inventory write downs in these categories during the period, including any potential impact of COVID-19; and
- tested that inventory on hand at the end of the period was recorded at the lower of cost and net realisable value by testing a sample of inventory items to the most recent retail price which includes any impact of COVID-19.



Our audit approach

Overview



Overall group materiality: \$3.6 million, which represents approximately 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

Full scope audits were performed for 8 of 24 entities in the Group based on their financial or operational significance; and

Specified audit procedures and analytical review procedures were performed on the remaining entities.

As reported above, we have two key audit matters, being:

- Impairment testing over indefinite life intangibles, including the impact of COVID-19
- Inventory and existence and valuation including the impact of COVID-19

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.



Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

Our objectives are 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 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) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 the consolidated financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/>

This description forms part of our auditor's report.



Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an 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 Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

Chartered Accountants

21 September 2021

Christchurch

Corporate governance

The Board and management of Kathmandu Holdings Limited (the “Company”) and its related companies (the “Group”) are committed to adhering to best practice governance principles and maintaining the highest ethical standards. The Board is responsible for the overall governance of the Group, including adopting the appropriate policies and procedures and guiding Directors, management and employees of the Group’s businesses to fulfil their functions effectively and responsibly.

The Company regularly examines its governance arrangements against national and international standards. The Company has developed its corporate governance policies and practices in line with the principles and recommendations set out in the New Zealand Stock Exchange (NZX) Corporate Governance Code (NZX Code). The structure of the Company’s FY2021 Annual Report and corporate governance statement aligns to NZX reporting requirements to reflect the Company’s Foreign Exempt Listing status on the ASX.

This corporate governance statement details the Company’s key corporate governance arrangements. Where the Company’s governance arrangements differ from a recommendation in the NZX Code, the relevant recommendation is separately identified and accompanied by an explanation for the reasons why the recommendation has not been followed and a summary of the alternative governance arrangements in place for the Company.

For the duration of the reporting period, the Company has followed the recommendations set out in the NZX Code where appropriate, having regard to the size of the Group and the Board, the resources available and the activities of the Group’s businesses. After due consideration, the Board considers that there have been no departures of the Company’s corporate governance practices from the recommendations set out in the NZX Code during the reporting period.

The Company’s relevant charters and policies are available in the Governance section of the Company’s Investor Website <https://www.kathmanduholdings.com/investor-centre/corporate-governance/>

The information in this statement is current as at 31 July 2021 (except where otherwise specified).

This corporate governance statement has been approved by the Board.

Principle 1 – Code of ethical behaviour

One of the Group’s core values is integrity: to conduct the Group’s businesses in an ethical and honest

manner, and to always strive to do the right thing. The Company is committed to promoting a culture of best practice and ethical behaviour and therefore expects the members of its Board and all employees to act in accordance with the Company’s values, policies and legal obligations. All Directors and employees joining the Group are provided with information on the Group’s values, and the following policies, and updates and refreshers are provided on a regular basis.

Code of Conduct

The Board recognises the need to observe the highest standards of ethical corporate practice and business conduct. Accordingly, the Board has a formal code of conduct, to be followed by all Directors and employees. Any material breaches of the Code of Conduct are reported to the Board.

The key aspects of the Code of Conduct are to:

- act with honesty, integrity and fairness and in the best interests of the Company;
- declare conflicts of interest and proactively advise of any conflicts of interest;
- act in accordance with all applicable laws, regulations, policies and procedures;
- follow procedures around the receiving of gifts;
- adhere to any procedures about whistleblowing; and
- use Group resources and property properly.

The Group maintains formal whistleblowing policies in New Zealand and Australia, recognising that the protection of whistle-blowers is integral to fostering transparency, promoting integrity and detecting misconduct. The best way to fulfil this commitment is to create an environment in which employees who have genuine concerns about improper conduct, unacceptable behaviour or wrong-doing feel safe to report it without fear of reprisal.

Securities Trading policy

The Company has a policy for dealing in the Company’s securities by Directors and employees, which provides transparency about expectations and requirements. The policy is not designed to prohibit Directors and employees from investing in the Company’s securities, but recognises that there are times when Directors or employees cannot, or should not, deal in those securities.

Subject to the overriding restriction that persons may not deal in the Company’s securities while they are in possession of non-public material information,

Directors, senior executives and key management personnel are only permitted to deal in securities during certain ‘window periods’; being the periods immediately following the release of the Company’s full and half year financial results or the release of a disclosure document offering securities in Kathmandu Holdings Limited. All other employees are strongly encouraged to deal in securities only during these ‘window periods’.

Directors, senior executives and key management personnel must receive clearance from the Chairperson of the board before any proposed dealing in Company securities in each instance. Where a Director or senior executive is subject to exceptional circumstances (such as severe financial hardship), written approval may be granted by the independent Directors for the disposal of Company securities, provided the individual concerned is not in possession of any non-public material information.

The policy prohibits Directors, senior executives, key management personnel and all other employees from entering into hedging or other arrangements that have the effect of limiting the economic risk in connection with unvested securities issued pursuant to any employee option or share plan.

Principle 2 – Board Composition and Performance

Roles and Responsibilities

The Board is responsible for the overall supervision and governance of the Group. A framework for the effective operation of the Board is set out in the Board Charter, which includes the following responsibilities:

- the long-term growth and profitability of the Company;
- developing the strategic and financial objectives for the Company;
- monitoring management’s implementation of key policies, strategies and financial objectives;
- directing, monitoring and assessing the Company’s performance against strategic business plans;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- identifying the principal risks of the Company’s business;
- reviewing and ratifying the Company’s systems of internal compliance and control, risk management, legal compliance, corporate governance practices, financial and other reporting;

- appointing and removing the Group Chief Executive Officer (“CEO”);
- ratifying the appointment, and where appropriate, the removal of the senior executives of the Group;
- approving the remuneration framework for the Group; and
- monitoring and reviewing board succession planning.

The Board delegates the responsibility for day to day management and operation of the Group to the Group CEO, who in turn delegates parts of these functions to senior group executive and management personnel. Matters reserved for the Board and the scope and limitations of delegations to the Group CEO, group executives and management personnel are set out in a Group delegated authority policy approved by the Board on an annual basis.

Board Composition

At present, the Board is comprised of six Directors, namely David Kirk, John Harvey, Michael Daly, Philip Bowman, Brent Scrimshaw and Andrea Martens. The Chairperson of the Board is David Kirk. Five out of the six Directors are non-executive Directors. Michael Daly (managing Director and Group CEO) is the only executive Director on the Board.

The Board assesses the independence of its Directors in accordance with the requirements set out in the Board Charter and the NZX Listing Rules. Michael Daly, as managing Director, is employed by the Company in an executive capacity and is not considered to be an independent Director. David Kirk, John Harvey, Philip Bowman, Brent Scrimshaw and Andrea Martens are considered independent Directors having regard to the factors set out in the NZX Code.

A brief biography of each Board member is set out on page 20 of this Annual Report and can also be found in the “Board of Directors” section of the Company’s Investor Website.

Nomination and Appointment

New Directors are selected through a nomination and appointment procedure administered by the Board, as outlined in the Board Charter.

The Board has systems in place which require that appropriate checks are conducted before appointing any new Director or putting a candidate forward to the Company’s shareholders for election as a Director.

The Company enters into written agreements with each newly appointed Director or senior executive establishing the terms of their appointment.

Skills Matrix

The Board benefits from a combination of the different skills, experiences and expertise that the Company’s Directors bring to the Board and the insights that result from this diversity. The Board is satisfied that the current composition of the Board reflects an appropriate range of the skills, experience, knowledge and diversity needed to discharge the Board’s functions and responsibilities and to achieve the strategic aims of the Group.

The Board continues to monitor and review Board composition. The Board has developed a skills matrix which it uses to assist in developing plans for long-term succession to identify current and future skills gaps.

The following chart summarises the skills, attributes and experience held by the Directors of the Company during the reporting period. Percentages are determined as at the date of this statement.



Executive Leadership: Experienced and successful leadership at a senior executive level of large organisations.

Governance: Knowledge and experience of high standards of corporate governance, including NZX Listing Rules and practices.

International Business Development: Experienced in multi-national, complex environments, including multi-channel business development.

Strategy: Expertise in the development and implementation of strategic plans and risk management to deliver investor returns over time.

Capital Projects, Mergers and Acquisitions: Experience in evaluating and implementing projects involving large-scale financial commitments, investment horizons and major transactions.

Financial Acumen: Expertise in understanding financial accounting and reporting, corporate finance and internal financial controls, including an ability to probe the adequacies of financial and risk controls.

Retail and Consumer Experience: Experienced in retail and consumer sectors, understanding multi-channel retailing and brand development.

Marketing and Product Development: Expertise and senior executive experience in marketing and new media marketing metrics and tools.

Remuneration: Experience in remuneration design to drive business success.

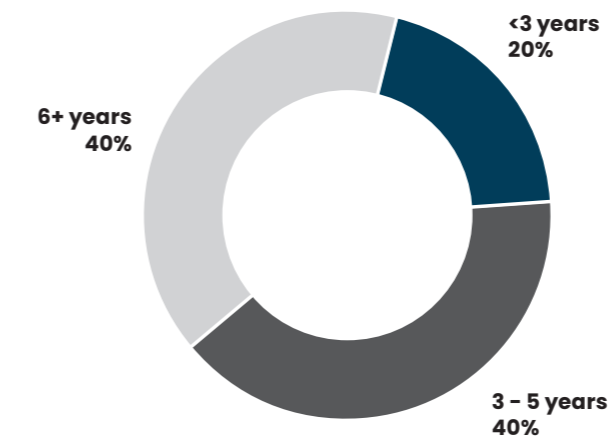
Technology and Data: Expertise and experience in the adoption of new technology and use of data analytics in a consumer environment.

Tenure

Directors are appointed and retire by rotation in accordance with the Company’s constitution and the NZX Listing Rule requirements. Director tenure is taken into account by the Board when considering the independence of each Director.

The average tenure for non-executive Directors is 5 years with the following tenure mix:

Non-Executive Director Tenure



The tenure of appointment of the Board as at 31 July 2021 is set out below:

| Name | Originally appointed | Last reappointed/ elected |
|--------------------------|----------------------|---------------------------|
| David Kirk (Chairperson) | 21 November 2013 | 23 November 2018 |
| John Harvey | 16 October 2009 | 25 November 2020 |
| Brent Scrimshaw | 2 October 2017 | 25 November 2020 |
| Philip Bowman | 2 October 2017 | 25 November 2020 |
| Andrea Martens | 1 August 2019 | 22 November 2019 |
| Michael Daly | 19 May 2021 | |

Measuring Board performance

The Board undertakes an annual evaluation of its performance against the requirements and expectations of the Board Charter. The performance of the Board’s committees and each individual Director is also reviewed on an annual basis, alongside the goals and objectives for the Board for the upcoming year. This review also identifies any changes needed to the Board Charter. The Board approves the criteria for assessing annual performance of the Group CEO.

The Board has undertaken a review of its performance in respect of the reporting period by individual interviews of Directors with the Chairperson.

The Board makes appropriate training available to all Directors to enable them to remain current on how best to discharge their responsibilities and to keep up to date on changes in areas relevant to their roles.

Diversity

The Group embraces and encourages a diverse workplace culture. This enriches collaborative and creative thinking to provide innovative products and world class customer service to an equally diverse global community.

The Group seeks out the best talent from around the world to join its brands and is proud to have a broad range of nationalities and ethnicities represented within our team, a diverse cross-generational team, and 63% female representation across the Group.

The Company’s commitment to diversity and inclusion goes beyond championing gender equality. Improving and evolving its inclusive and collaborative workplace culture is a shared passion across all brands that enhances the Group’s competitive advantage.

The Company maintains a written diversity policy in accordance with the NZX Code, which affirms the Group’s commitment to harnessing differences to encourage an innovative, responsive and productive workplace, creating value and rewards for customers, the team, shareholders and the community.

As part of its diversity policy, the Remuneration Committee sets measurable objectives for achieving diversity across the Group. The Remuneration Committee carries out an annual assessment of its diversity objectives and measures its progress towards achieving these objectives. Following this review, the Board considers that the principles of the Group's diversity policy are currently well-reflected in the variety of cultures, unique experiences, perspectives, and beliefs represented by its teams.

More information about the Group's approach to diversity can be found in our Sustainability Report, a copy of which is available through the Investor Website.

Gender composition of the Company's Board and Officers

As at 31 July 2021, the gender composition of the Company's Board and Officers is as follows:

| | Directors | | Officers (Group Executive) | |
|--------------|-----------|----------|-------------------------------|----------|
| | FY21 | FY20 | FY21 | FY20 |
| Male | 5 | 5 | 5 | 5 |
| Female | 1 | 1 | 1 | 0 |
| Total | 6 | 6 | 6 | 5 |

Group Diversity

For more information about diversity across the Group, please refer to the Kathmandu Holdings 2021 Sustainability Report available online at <https://www.kathmanduholdings.com/corporate-responsibility/>.

Principle 3 – Board committees

The Board has established and maintains two committees of the Board to assist with discharging the Board's responsibilities: the Audit and Risk Committee and the Remuneration Committee. The Board may establish other committees as and when required based on the needs of the Group.

Each Committee is governed by its own Charter, which has been adopted by the Board, and is reviewed periodically. The Committee charters are available in the "Governance" section of the Company's Investor Website.

Membership of each Committee is based on the needs of the Company, relevant legislative and other requirements and the skills and experience of individual Directors. Meetings of the Committees are scheduled to coincide with the Board meeting timetable. Each Committee makes recommendations to the full Board for consideration and decision-making as and when required.

The Company does not have a nomination committee. Due to the size of the Company's Board, the Board as a whole retains the responsibility for recommending new Director appointments. The Board considers that it is able to deal efficiently and effectively with the processes of appointment and reappointment of Directors to the Board and considerations of Board composition and succession planning. The Board draws on the experience and advice of external recruitment specialists for assistance when required.

The Board will continue to review the needs of the Group in relation to the Director nomination process and whether a change of approach in this area is needed.

A summary of the roles, responsibilities and membership of these two Committees (as at 31 July 2021) is set out on the next page.

| | Audit and Risk Committee | Remuneration Committee |
|-----------------------------------|--|---|
| Roles and responsibilities | <ul style="list-style-type: none"> Overseeing the process of financial reporting, internal control, continuous disclosure, financial and non-financial risk management, compliance and external audit; Monitoring the Group's compliance with laws and regulations and the Company's Code of Conduct; Encouraging effective relationships with, and communication between, the Board, management and the Company's external auditor; and Evaluating the adequacy of processes and controls established to identify and manage areas of potential risk and to seek to safeguard the Company's assets. | <ul style="list-style-type: none"> Overseeing the development and application of the Group Human Resources strategy, the remuneration framework and associated policies; Assisting the Board in relation to matters concerning remuneration of senior executives, and Directors; Providing effective remuneration policies and programmes to motivate high performance from all employees; and Confirming that appropriate and effective policies for managing the performance and development of employees at all levels are in place. |
| Membership | <p>At least three members, a majority of whom must be independent Directors and all of whom must be non-executive Directors. At least one member must have an accounting or financial background. The Chair is to be an independent non-executive Director, who is not the Chair of the Board.</p> <p>Current members: John Harvey (Chair) David Kirk Philip Bowman Brent Scrimshaw Andrea Martens</p> <p>Senior executives may be invited to attend Audit and Risk Committee meetings by invitation only.</p> | <p>At least three members, a majority of whom must be independent Directors and all of whom must be non-executive Directors. The Chair is to be an independent, non-executive Director.</p> <p>Current members: Andrea Martens (Chair) David Kirk John Harvey Philip Bowman Brent Scrimshaw</p> |

Attendance

The number of meetings of the Board of Directors and the Board Committees held during the year ended 31 July 2021 and the numbers of meetings attended by each Director were:

| | Board | | Audit and Risk Committee | | Remuneration Committee | |
|-----------------|----------|--------------------|--------------------------|--------------------|------------------------|--------------------|
| | Attended | Eligible to attend | Attended | Eligible to attend | Attended | Eligible to attend |
| David Kirk | 9 | 9 | 5 | 5 | 5 | 5 |
| Xavier Simonet* | 7 | 7 | 0 | 0 | 0 | 0 |
| John Harvey | 9 | 9 | 5 | 5 | 4 | 5 |
| Andrea Martens | 9 | 9 | 5 | 5 | 5 | 5 |
| Brent Scrimshaw | 8 | 9 | 4 | 5 | 4 | 5 |
| Philip Bowman | 9 | 9 | 5 | 5 | 5 | 5 |
| Michael Daly | 1 | 1 | 0 | 0 | 0 | 0 |

* Xavier Simonet retired effective 9 April 2021

Takeover protocols

The Board has appropriate protocols in place that set out the procedure to be followed if there is a takeover offer for the Company. A committee of independent Directors would be formed who would have responsibility for managing the takeover process in accordance with the Board protocols and the New Zealand Takeovers Code.

Principle 4 – Reporting and Disclosure

The Company is committed to promoting investor confidence by providing all stakeholders with timely, accurate and balanced disclosure of information regarding its financial and operational matters.

The Company's Code of Conduct, Board and Committee Charters and other key governance policies and documents are available on its Investor Website at <https://www.kathmanduholdings.com/investor-centre/corporate-governance/>

Continuous disclosure policy

The Company's Continuous disclosure policy provides that all Directors, executives and employees are required to be aware of and fulfil their obligations in relation to the timely disclosure of material information. The policy explains the respective roles and responsibilities, procedures and processes in place to ensure the Company observes its continuous disclosure obligations under the NZX Listing Rules. The policy is available and accessible to all Group employees and training on its contents is provided regularly.

Financial Reporting

The Audit and Risk Committee oversees the quality of external financial reporting including the veracity, comprehensiveness and timeliness of financial statements. The Company seeks to provide clear, concise financial statements.

Before the Board approves financial statements for the Group for a financial period, it receives from the Group CEO and Group CFO a declaration that, in their opinion:

- the financial records of the Group have been properly maintained;
- the financial statements comply with the appropriate accounting standards and other applicable laws and regulations;
- the financial statements give a true and fair view of the financial position and performance of the Group; and

- that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Environment, Social and Governance

The Company recognises the importance of sharing information about its journey to becoming a more sustainable business. Across the Group, the Company is committed to protecting workers' rights, minimising waste and lowering the environmental impacts of the Group's business operations through understanding its supply chain. Further information is included in the "ESG across the Group" section on page 10.

The Company also prepares a separate sustainability report in accordance with the Global Reporting Initiative (GRI) Standards framework. It is available online at <https://www.kathmanduholdings.com/corporate-responsibility/>

Principle 5 – Remuneration

The Remuneration Committee is responsible for reviewing remuneration packages for the Group CEO and senior executives and making recommendations to shareholders in relation to non-executive Director's remuneration.

The Remuneration Committee adopts a series of principles in determining remuneration related decisions. The principles used are:

- The remuneration structure should reward those employees who can influence the achievement of the Group's strategic objectives and business plans to enhance shareholder value for successful Group performance outcomes and their contribution to these;
- Executive remuneration should be market competitive, and generally account for market practice including consideration of employee place of domicile;
- Executives' remuneration packages should have:
 - a substantial portion of their total remuneration that is "at risk" and aligned with reward for creating shareholder value,
 - an appropriate balance between short and long-term performance focus and outcomes,
 - a mix of cash and equity-based remuneration;

- Due to the Group CEO's leadership role in establishing and delivering achievement of medium and long term Group strategic objectives and business plans, and increasing shareholder value over that period, the Group CEO, relative to other Executives, should have:
 - a greater proportion of total remuneration (at least 50%) that is "at risk", i.e. contingent upon the achievement of performance hurdles, and
 - a greater proportion of "at risk" remuneration weighted towards equity-based rewards rather than cash;
- Non-executive Directors' remuneration should enable the Company to attract and retain high quality Directors with the relevant experience. In order to maintain independence and impartiality, non-Executive Directors should not receive performance-based remuneration; and
- The Board uses discretion when setting remuneration levels, taking into account interests of shareholders, the current market environment and Group performance.

The current approved pool of remuneration available for payment to non-executive Directors is AUD \$1,000,000 in aggregate. This was approved by shareholders at the Annual Meeting on 26 November 2018. In the year ended 31 July 2021, total fees paid to non-executive Directors amounted to NZD \$789,605.

Details of the total remuneration and value of other benefits received by each director from the Company during the reporting period is set out on page 90 of this Annual Report.

Remuneration policy

The Company maintains a remuneration policy in relation to its Directors, executives and employees which provides for remuneration at fair and reasonable levels throughout the Group. The purpose of the policy is to provide for coherent remuneration practices that enable the attraction and retention of high calibre individuals who contribute positively to the achievement of the Group's strategy and objectives, and ultimately create value for the Company's shareholders. The remuneration of executive and non-executive Directors is clearly differentiated in the policy.

The Board, through the Remuneration Committee, undertakes its governance role in setting Group executive remuneration including, where required, use of external independent remuneration consultants and/or available market information.

The Group executive remuneration structure has three components:

- Base salary and benefits (reviewed annually to assess appropriateness to the position and competitiveness within the market);
- Short term incentives determined on the basis of achievement of specific targets and outcomes relating to annual Group financial performance, and individual value adding performance objectives; and
- Long term incentives via participation in the Company's Long Term Incentive plan.

Short Term Incentives (STI)

Group executives are eligible to participate in an annual STI that delivers rewards by way of cash and/or deferred equity. Group Earnings before interest and tax (EBIT), has been determined as the appropriate financial performance target to trigger payment of STI. The amount of any STI paid in a year is dependent upon:

- a) the level of performance achieved against the Group's financial performance target (EBIT) for the year; and
- b) the outcome of individual value adding performance, measured by achievement of individual KPI's, subject to a minimum level of performance achieved by the Group relative to the financial performance target (EBIT) for the year.

For Executives where a short-term equity incentive is earned, vesting is subject to ongoing employment by the Group for a period of one year following the end of the financial year in which the incentive is earned.

Long Term Incentive Plan (LTI)

Performance Rights under the Group's Long-Term Incentive Plan have been offered each year since the plan was originally implemented in 2010.

The plan is intended to focus performance on achievement of key long-term performance metrics. The selected performance measures provide an appropriate balance between relative and absolute Company performance. The Board continues to reassess the plan and its structure to confirm it will best support and facilitate the growth in shareholder value over the long term relative to current business plans and strategies.

Performance rights granted to the Group executive during the reporting period are dependent upon the following:

- 50% of vesting is subject to an Earnings Per Share growth hurdle over a three-year period between 1 August 2020 and 31 July 2023 (“Performance Period”). The Board establishes annual EPS targets at the commencement of each relevant Financial Year. At the conclusion of the Performance Period, the EPS performance in each Financial Year will be pooled so that Earnings Per Share growth is measured from the start to the end of the Performance Period. Vesting is on a sliding scale proportionate to the total Earnings Per Share growth; and
- 50% of vesting is subject to the Company achieving relative TSR targets over the 36 months from 1 December 2020 to 1 December 2023. TSR is measured on a relative basis against a comparator group of ASX listed companies (other than metal and mining stocks) ranked 101 to 200 in the S&P/ASX200 as at the date of the grant. Vesting is on a sliding scale proportionate to the total Shareholder Return performance.

Performance measurement is at the end of the applicable Performance Period with no ability to re-test. In respect of rights granted during the reporting period, the relevant portion of the award that will vest is determined based on the percentile ranking of the Company against the comparator group at the end of the performance period. Performance rights are granted at nil cost.

Group CEO Remuneration

Group CEO remuneration comprises a mixture of base salary, STI and LTI.

Xavier Simonet was Group CEO of the Company for 8 months of FY2021 (from 1 August 2020 to 9 April 2021). Michael Daly was appointed as Group CEO from 19 May 2021. The Group CEO's remuneration for the year ending 31 July 2021 for both Xavier and Michael is set out in the two separate tables below:

| Xavier Simonet Group CEO 2021 Remuneration package from 1 August 2020 to 9 April 2021 | A\$ |
|--|--------------------------|
| Fixed (Base salary, superannuation) | \$966,396 |
| STI (60% of fixed) | None earned / to be paid |
| LTI (70% of fixed)* | Not issued* |
| Maximum potential remuneration | \$966,396 |

* At the date of issue of the LTI for FY2021, Xavier had tendered his resignation to the Company and therefore no LTI was issued to him for this period.

| Michael Daly Group CEO 2021 Remuneration package from 19 May 2021 to 31 July 2021 | A\$ |
|--|------------|
| Fixed (Base salary, superannuation)* | \$217,430 |
| STI (60% of fixed)* | Not issued |
| LTI (70% of fixed)** | Not issued |
| Maximum potential remuneration | \$217,430 |

* Michael Daly's annual fixed remuneration as Group CEO (including superannuation contribution) is A\$1,028,500. During FY2021, Michael Daly received a base salary and superannuation contribution for his role as Rip Curl CEO, together with an STI calculated at 40% of his base salary as Rip Curl CEO. For FY2022, Michael Daly's remuneration package will include an STI component calculated at 60% of his fixed salary as Group CEO.

** For FY2021, Michael Daly's remuneration package included an LTI component in respect of his role as Rip Curl CEO at the threshold of 60% of his fixed salary as Rip Curl CEO. For FY2022, Michael Daly's LTI entitlement will be issued at 70% of his fixed salary as Group CEO.

The key principles of the Company's Remuneration policy for the Group CEO remuneration package are:

- More than half the total remuneration for the Group CEO is at risk;
- Over 85% of the at-risk remuneration (all except for the STI KPI's) is solely dependent on outcomes of Group financial performance against short and long term targets, and
- All long-term incentive (70% of Fixed Annual Remuneration) will be measured on a single 3-year performance period.

Principle 6 – Risk Management

The identification and proper management of the Group's material risks is an important priority of the Board. The Company has a central risk management framework in place to identify, oversee, manage and control risks. The Board regularly reviews this framework and the assessments of how the material risks are impacting its business. The Board recognises that some element of risk is inherently necessary in order to achieve the strategic aims for the Group's businesses and deliver value to shareholders.

Risk management policy

The purpose of the Company's risk management policy is to highlight the risks relevant to the Group's operations, and the Company's commitment to designing and implementing systems and methods appropriate to minimise and control its risks.

The Audit and Risk Committee assists the Board in discharging its responsibility for monitoring risk

management. The Committee is responsible for establishing procedures which seek to provide assurance that major business risks are identified, consistently assessed and appropriately addressed. This Committee oversees the implementation of the risk management framework, monitors its ongoing effectiveness and regularly reports to the Board. The Audit and Risk Committee undertook a formal review of the risk management framework during the reporting period.

Health and Safety

The Company is dedicated to cultivating a strong safety culture and awareness of health and safety risks, performance and management within the Group. The Company has adopted an integrated approach to safety and wellbeing across the Group, which recognises that workplace safety, health and mental health all contribute to an employee's overall wellbeing.

The Board receives and reviews detailed reports on health and safety matters at each Board meeting from the brand CEOs.

More information on Health, Safety and Wellbeing in the Group can be found in the Company's sustainability report, a copy of which is available through the Investor Website.

Principle 7 – Auditors

The Audit and Risk Committee is responsible for making recommendations to the Board about the appointment or replacement of, and for monitoring the effectiveness and independence of, the Group's external auditor. The Committee Charter requires that the external auditor or lead audit partner is changed at least every five years. The Committee reviews and assesses the independence of the external auditor on an annual basis.

The Company's external auditor is PwC. The audit partner responsible was appointed in 2018.

During the reporting period, the Company implemented an internal audit function. This function provides a system for evaluating and continually improving the effectiveness of risk management for the Group and delivers appropriate objective assurance on risk management.

The Company's external auditor attends the annual meetings of the Company and is available to answer any questions from investors relevant to the audit.

Principle 8 – Shareholder Rights & Relations

The Company is committed to keeping its stakeholders and owners effectively and comprehensively informed of all relevant information affecting the Group in accordance with all applicable laws and the Company's communication strategy.

Information is communicated to investors through the lodgement of all relevant financial and other information with NZX and ASX, publishing information on the Company's Investor Website, annual shareholder meetings, annual and interim reporting, analyst and investor briefings and roadshows.

Investor Website

The Company's Investor Website (www.kathmanduholdings.com) contains all key communications concerning the Company and information about its brands: Kathmandu, Rip Curl and Oboz. Shareholders can also view profiles of the Company's Board and Group Executive Management team on the Investor Website, along with its key governance policies, the Charters of the Board Committees, copies of current and past annual reports and transcripts of annual shareholder meetings.

All relevant announcements made to the market are shown on the Company's Investor Website as soon as they have been released to NZX and ASX and can also be accessed through the Company's Investor Website. Investors can subscribe through the Investor Website to receive an email alert when a new announcement is lodged.

Communication

The Board encourages investors to communicate with the Company electronically. Investors can contact the Company through the Investor Website at www.kathmanduholdings.com/contact/. Investors have the option of receiving their communications, which includes the annual report, from the company electronically.

The Company actively engages with its investors through annual shareholder meetings, its investor briefings and roadshows, and meeting with stakeholders on request.

Approach to seeking additional equity capital

The Board acknowledges Recommendation 8.4 of the NZX Code which suggests that where the Company requires additional equity capital, where practical, the Board should favour capital raising methods that provide existing equity security holders with an opportunity to participate in the offer on a pro-rata basis. The Board has taken Recommendation 8.4 into account, along with a number of other factors when considering options for the capital raisings in previous reporting periods. Ultimately the Board will choose methods to raise equity, when needed, which are necessary and desirable to achieve the best outcomes for the Company in the context of any anticipated transaction or proposal for which additional equity capital may be required.

Meetings and voting

Where voting by shareholders on a matter concerning the Company is required, the Board encourages investors to attend the shareholders' meeting or to send in a proxy vote. All voting at the Company's annual shareholder meeting is conducted by way of poll on the basis of one share, one vote.

The Company's annual shareholder meeting is held primarily in New Zealand, and periodically in Australia, in order to maximise the opportunity for shareholders to participate. In 2019, the Company began using a virtual meeting platform for its shareholder meetings to allow participation where a shareholder is unable to attend in person. The Company's notice of meeting will be available at least 20 working days prior to the meeting at www.kathmanduholdings.com/investor-centre/announcements/.

Statutory information

Disclosure of Interests by Directors

In accordance with Section 140(2) of the Companies Act 1993, the Directors named below have made a general disclosure of interest, by a general notice disclosed to the Board and entered in the Company's interests register. General notices given by Directors which remain current as at 31 July 2021 are as follows:

DAVID KIRK

| | |
|--|---------------------|
| NZ Rugby Players Association | Chairman |
| Forsyth Barr Group Limited and Forsyth Barr Limited | Chairman / Director |
| Bailador Investment Management Pty Limited | Managing Partner |
| Bailador Technology Investments Limited (including investee companies) | Chairman |
| NZ Performance Horses Limited | Director |
| Kiwi Harvest Limited | Chairman |
| Sydney Festival | Chairman |
| Lord Howe Island Board | Director |

JOHN HARVEY

| | |
|--------------------------------------|----------|
| Stride Holdings Limited | Director |
| Stride Investment Management Limited | Director |
| Stride Property Limited | Director |
| Investore Property Limited | Director |
| Heartland Bank Limited | Director |
| Pomare Investments Limited | Director |
| Napier Port Holdings Limited | Director |
| Port of Napier Limited | Director |

ANDREA MARTENS

| | |
|---|----------|
| ADMA – Australian Data Driven Marketing Association | CEO |
| HYG Holdco Pty Limited (effective 1 July 2021) | Director |

PHILIP BOWMAN

| | |
|---------------------------------|------------------------------|
| Sky Network Television Limited | Chairman |
| Majid al Futtaim Properties LLC | Chairman |
| Tegel Group Holdings Limited | Chairman |
| Ferrovia SA | Director |
| Atropos SCI | Président Directeur Generale |
| Better Capital PCC Limited | Director |
| Vinula Pty Ltd | Director |
| Vinula Superfund Pty Ltd | Director |
| Tom Tom Holdings Inc | Director |
| Majid al Futtaim Capital LLC | Director |
| Majid al Futtaim Holdings LLC | Director |

BRENT SCRIMSHAW

| | |
|--|----------|
| Enero Group Limited | CEO |
| Rhinomed Limited | Director |
| Catapault Group International Limited (resigned November 2020) | Director |
| Melbourne International Festival of the Arts Limited | Director |

MICHAEL DALY

| | |
|---------------------|----------|
| Stringydale Pty Ltd | Director |
|---------------------|----------|

Directors' Remuneration and Other Benefits

During the year, the Directors and former Directors of the Company received the following remuneration and other benefits, which were approved by the Board:

| Director | Total Remuneration | Other benefits |
|---------------------------------------|--------------------|---------------------------|
| David Kirk | NZD \$255,075 | None |
| Philip Bowman | NZD \$133,601 | None |
| John Harvey | NZD \$133,601 | None |
| Andrea Martens | NZD \$133,664 | None |
| Brent Scrimshaw | NZD \$133,664 | None |
| Xavier Simonet (retired 9 April 2021) | NZD \$1,016,660 | \$21,360 (superannuation) |
| Michael Daly (appointed 19 May 2021) | NZD \$227,701 | \$5,843 (superannuation) |

Employee Remuneration

During the year ended 31 July 2021 a number of employees or former employees, not being Directors of the Company, received remuneration and other benefits that exceeded NZ\$100,000 in value as follows:

| Remuneration (NZD \$) | Number of Employees | Remuneration (NZD \$) | Number of Employees |
|-----------------------|---------------------|---------------------------|---------------------|
| \$100,000 - \$110,000 | 52 | \$310,000 - \$320,000 | 1 |
| \$110,000 - \$120,000 | 26 | \$320,000 - \$330,000 | 1 |
| \$120,000 - \$130,000 | 30 | \$330,000 - \$340,000 | 1 |
| \$130,000 - \$140,000 | 19 | \$340,000 - \$350,000 | 1 |
| \$140,000 - \$150,000 | 14 | \$350,000 - \$360,000 | 2 |
| \$150,000 - \$160,000 | 17 | \$360,000 - \$370,000 | 1 |
| \$160,000 - \$170,000 | 5 | \$380,000 - \$390,000 | 1 |
| \$170,000 - \$180,000 | 10 | \$390,000 - \$400,000 | 1 |
| \$180,000 - \$190,000 | 6 | \$430,000 - \$440,000 | 1 |
| \$190,000 - \$200,000 | 8 | \$440,000 - \$450,000 | 1 |
| \$200,000 - \$210,000 | 6 | \$450,000 - \$460,000 | 1 |
| \$210,000 - \$220,000 | 7 | \$460,000 - \$470,000 | 2 |
| \$220,000 - \$230,000 | 6 | \$470,000 - \$480,000 | 2 |
| \$230,000 - \$240,000 | 4 | \$490,000 - \$500,000 | 1 |
| \$240,000 - \$250,000 | 4 | \$520,000 - \$530,000 | 1 |
| \$250,000 - \$260,000 | 1 | \$570,000 - \$580,000 | 1 |
| \$260,000 - \$270,000 | 2 | \$590,000 - \$600,000 | 1 |
| \$280,000 - \$290,000 | 4 | \$750,000 - \$760,000 | 1 |
| \$290,000 - \$300,000 | 1 | \$1,080,000 - \$1,090,000 | 1 |
| | | \$1,120,000 - \$1,130,000 | 1 |

Donations

During the year, the Group has made total donations of \$578,649.

Directors' Details

- **David Kirk** Chairman, Non-Executive Director
- **Xavier Simonet** Managing Director and Chief Executive Officer (retired 9 April 2021)
- **Michael Daly** Managing Director and Group Chief Executive Officer (appointed 19 May 2021)
- **John Harvey** Non-Executive Director
- **Philip Bowman** Non-Executive Director
- **Andrea Martens** Non-Executive Director
- **Brent Scrimshaw** Non-Executive Director

Subsidiary Company Directors

Section 211(2) of the Companies Act 1993 requires the Company to disclose, in relation to its subsidiaries, the total remuneration and value of other benefits received by Directors and former Directors, and particulars of entries in the interests registers made during the year ended 31 July 2021.

No subsidiary has Directors who are not full-time employees of the Group.

The remuneration and other benefits of such employees (received as employees) totalling \$100,000 or more during the year ended 31 July 2021, are included in the relevant bandings for remuneration disclosed on page 90.

No employee of the Group appointed as a Director of Kathmandu Holdings Limited or its subsidiaries receives or retains any remuneration or other benefits in their capacity as a Director.

The persons who held office as Directors (or the legal equivalent in various jurisdictions) of subsidiary companies at 31 July 2021, and those who ceased to hold office during the year ended 31 July 2021, are as follows:

| Company | Director / Office Holder | Company | Director / Office Holder |
|---|--|---|--|
| Milford Group Holdings Limited Kathmandu Limited Kathmandu (U.K.) Limited | Reuben Casey, Xavier Simonet*, Chris Kinraid | Rip Curl Brazil LTDA | Carla Trindade |
| Kathmandu Pty Limited Barrel Wave Holdings Pty Limited | Reuben Casey, Xavier Simonet*, Chris Kinraid, Anthony Roberts | Rip Curl Canada Inc | Anthony Roberts and Nick Russell |
| Kathmandu US Holdings LLC | Xavier Simonet*, Reuben Casey, Chris Kinraid | Rip Curl Japan | Ietoshi Ueda |
| Oboz Footwear LLC | Amy Beck | Onsmooth Thai Co Ltd | Anthony Roberts, Duncan Stewart, Michael Daly |
| Rip Curl, Inc Rip Curl International Pty Ltd Rip Curl Proprietary Limited RC Airports Pty Ltd Rip Curl Finance Pty Ltd Rip Curl Group Pty Ltd Rip Curl Investments Pty Ltd Bondi Rip Pty Ltd Bluesurf Pty Ltd | Michael Daly and Anthony Roberts | PT Jarosite | James Hendy, Anthony John Roberts, Jeffrey Robert Anderson, Michael Daly |
| Curl Retail No 1 Pty Ltd JRRC Rundle Mall Pty Ltd Ozmosis Pty Ltd RC Chermiside Pty Ltd RC Surf Sydney Pty Ltd RC Surf Pty Ltd RC Surf South Pty Ltd Rip Curl Airport and Tourist Stores Pty Ltd | Anthony Roberts | Rip Curl Europe S.A.S | Mathieu Lefin and Isabelle Espil |
| RC Surf NZ Limited | Paul Pedersen (retired 31 March 2021), Anthony Roberts and Chris Kinraid (appointed 31 March 2021) | Rip Curl Spain SA Unipersonal Rip Curl UK Ltd Rip Surf Artigos De Desporto Unipessoal LDA Rip Curl Germany GmbH Rip Curl Italy SRL (voluntary liquidation effective 31 March 2021) | Mathieu Lefin |
| | | Rip Curl Suisse S.A.R.L | Mathieu Lefin and Julien Haueter |
| | | Rip Curl Nordic AB | Mathieu Lefin, Alois Bersan and Isabelle Espil |
| | | Surf Odyssey SARL (shareholding interest ceased effective 11 September 2020) | Xavier Barjou |
| | | 50% subsidiary interests: | |
| | | Rip Curl (Thailand) Co. Ltd | Sermchai Putamadilok |

* (retired 9 April 2021)

Principal Shareholders

The names and holdings of the twenty largest shareholders as at 20 September 2021 were:

| | Name | Ordinary Shares | % |
|----|--|-----------------|-------|
| 1 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 75,207,015 | 10.61 |
| 2 | BRISCOE GROUP LIMITED | 48,007,465 | 6.77 |
| 3 | CITIBANK NOMINEES (NZ) LTD | 43,663,443 | 6.16 |
| 4 | CITICORP NOMINEES PTY LIMITED | 39,983,021 | 5.64 |
| 5 | NEW ZEALAND SUPERANNUATION FUND NOMINEES LIMITED | 36,830,490 | 5.19 |
| 6 | ACCIDENT COMPENSATION CORPORATION | 33,098,135 | 4.67 |
| 7 | HSBC NOMINEES (NEW ZEALAND) LIMITED | 28,371,125 | 4.00 |
| 8 | NATIONAL NOMINEES NEW ZEALAND LIMITED | 24,852,688 | 3.51 |
| 9 | NATIONAL NOMINEES LIMITED | 24,748,330 | 3.49 |
| 10 | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 22,644,520 | 3.19 |
| 11 | TEA CUSTODIANS LIMITED | 21,866,473 | 3.08 |
| 12 | FNZ CUSTODIANS LIMITED | 21,318,309 | 3.01 |
| 13 | BNP PARIBAS NOMINEES NZ LIMITED BPSS40 | 20,226,627 | 2.85 |
| 14 | NEW ZEALAND DEPOSITORY NOMINEE | 19,950,853 | 2.81 |
| 15 | JPMORGAN CHASE BANK | 14,684,795 | 2.07 |
| 16 | PT BOOSTER INVESTMENTS NOMINEES LIMITED | 11,537,307 | 1.63 |
| 17 | FORSYTH BARR CUSTODIANS LIMITED | 9,181,001 | 1.29 |
| 18 | BNP PARIBAS NOMINEES PTY LTD | 8,575,631 | 1.21 |
| 19 | CUSTODIAL SERVICES LIMITED | 7,675,256 | 1.08 |
| 20 | HSBC NOMINEES (NEW ZEALAND) LIMITED | 7,649,486 | 1.08 |

Directors' Shareholdings

Directors held interests in the following ordinary shares of the Company at 31 July 2021:

| Director/Senior Manager | Nature of interest | Number held at 31 July 2020 | Acquired | Disposed | Total held at 31 July 2021 |
|-------------------------|--------------------|-----------------------------|----------|----------|----------------------------|
| David Kirk | Beneficially owned | 743,336 | - | - | 743,336 |
| Philip Bowman | Beneficially owned | 150,000 | 150,000 | - | 300,000 |
| John Harvey | Beneficially owned | 160,897 | - | - | 160,897 |
| Michael Daly | Beneficially owned | 406,720 | - | - | 406,720 |

Michael Daly held the following interests in convertible financial products in the Company at 31 July 2021 due to his participation in the Kathmandu Holdings Limited Long Term Incentive Plan for Employees.

Executive Director – Michael Daly

| Nature of interest | Number granted | Grant Date | Vesting Period | Vesting Date | Total Fair Value of Performance Rights at Grant Date \$A |
|--------------------|----------------|------------|----------------|--------------|--|
| Performance Rights | 483,621 | 22 Dec 20 | 3 years | 1 Dec 23 | 561,000 |

No other directors held interests in convertible financial products of the Company at 31 July 2021.

Performance rights granted will, subject to satisfaction of performance conditions, vest on the basis of one ordinary share for each performance right which vests, at the end of each performance period.

Distribution of Shareholders and Holdings

| | Number of Holders | % | Number of Ordinary Shares | % |
|-------------------|-------------------|-------------|---------------------------|-------------|
| 1 to 1,000 | 3,585 | 29.24 | 2,149,079 | 0.30 |
| 1,001 to 5,000 | 4,574 | 37.30 | 11,973,575 | 1.69 |
| 5,001 to 10,000 | 1,700 | 13.86 | 13,146,126 | 1.85 |
| 10,001 to 100,000 | 2,214 | 18.06 | 62,295,532 | 8.79 |
| 100,001 and over | 189 | 1.54 | 619,437,072 | 87.37 |
| Total | 12,262 | 100% | 709,001,384 | 100% |

The details set out above were as at 20 September 2021.

Substantial Product Holders

The substantial product holders of ordinary shares (being the only class of quoted voting products) of the Company and their relevant interests as at 31 July 2021, were as follows:

| | Ordinary Shares | % |
|---|-----------------|------|
| Yarra Capital Management Limited | 59,277,176 | 8.36 |
| Jarden Securities Limited, Harbour Asset Management Limited and Jarden Scientific Trading Limited | 59,221,361 | 8.35 |
| Briscoe Group Limited | 48,007,465 | 6.77 |
| New Zealand Superannuation Fund Nominees Limited | 35,454,876 | 5.00 |

As at 31 July 2021, the Company had 709,001,384 ordinary shares on issue.

NZX Class Waivers Relied on

During the year, the Company did not rely on any Class Rulings or Waivers granted by NZX Regulation.

Directors' and Officers' Insurance and Indemnity

The Group has arranged, as provided for under the Company's Constitution, policies of Directors' and Officers' Liability Insurance which, with a Deed of Indemnity entered into with all Directors, provides that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors. Certain actions are specifically excluded, for example, the incurring of penalties and fines which may be imposed in respect of breaches of the law.

Directory

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

223 Tuam Street
Christchurch Central
PO Box 1234
Christchurch 8011

Share Registry

In New Zealand: Link Market Services (LINK)

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

Postal Address: PO Box 91976,
Auckland, 1142
New Zealand

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

In Australia: Link Market Services (LINK)

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

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

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

Stock Exchanges

The Company's shares are listed on the NZX and the ASX.

Incorporation

The Company is incorporated in New Zealand.

